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Date
1 February 2019
Telephone
Our reference
Your reference

Subject
BBL Company - Implicit Allocation Capacity

Dear Stakeholder,

Since BBL Company Shippers have increasingly expressed their need for more flexibility around the timing to purchase BBL capacity, BBL Company is proposing an additional gas capacity allocation mechanism next to the auctions on Europe's PRISMA platform. BBL Company is looking to introduce a method to sell unbundled transport capacity on the BBL, combined with an equivalent quantity of gas at a fixed price (First Come First Serve) outside PRISMA's auction periods for bundled space on the pipeline.

The key benefit of the new system is that it allows Shippers to book capacity at any time, instead of being bound by the PRISMA auction schedule. This wider window should also make it more likely for BBL capacity to be "in the money" with respect to locational spreads between the UK and the Netherlands.

1. INTRODUCTION

1.1 Who are we- About BBL Company

BBL Company (BBLC) operates BBL, a 235-kilometre gas pipeline between Balgzand in the Netherlands and Bacton in the United Kingdom. Currently BBLC's forward flow products (NL – GB) play a significant role in respect of GB's security of supply. BBLC also strengthens the position of the Netherlands as a leading European gas player, and supports the integration of the European gas market. In addition BBLC enables shippers to exploit differences between GB (NBP) and Dutch (TTF) gas prices.

BBLC was established in 2004 as a partnership between Gasunie BBL B.V. (60%), Uniper Ruhrgas BBL B.V. (20%) and Fluxys BBL B.V. (20%), subsidiaries of Gasunie, Uniper and Fluxys, respectively.

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The current lay-out of the BBLC system is such that the pipeline currently can only physically transport gas from the continent towards the UK. Within this framework, BBLC offers three types of services: Forward Flow (FF), Interruptible Forward Flow (IFF) and Interruptible Reverse Flow RF (IRF). The IRF service will be replaced by a Physical Reverse Flow service (PRF) in 2019.

With the current BBLC configuration, the markets tend to utilise the pipeline mainly during the winter months. One way to attract new gas flows and to make optimal use of the BBL pipeline is to expand BBLC's products and services by offering Physical Reverse Flow (PRF) capacity to Shippers. It is foreseen that during the wintertime, gas will mainly flow from the continent to the UK, and vice versa during the summer. Therefore, offering PRF will provide flexibility, leading to a better utilization of the BBL pipeline, throughout the whole year. This PRF project is due for completion in the summer of 2019.

BBLC believes that having additional methods of selling transmission capacity, in real-time and in direct alignment with market spreads, will stimulate flows from the Netherlands to the UK and vice versa, support the efficient use of BBL transmission capacity, attract new Shippers, and reduce the overall cost to consumers. BBLC also believes it will support the commodity and transmission market and support gas security of supply in the UK, the Netherlands and other countries.

Via implicit allocation Shippers are able to buy transmission capacity when they see opportunities in the market. The BBL pipeline has the technical ability to meet changing market demands, but the tight CAM NC auction timetable limits Shippers' ability to purchase BBLC transmission capacity and therefore doesn't allow capacity sales whenever market opportunities occur.

Implicit allocation will optimise market dynamics not just around the current forward flow but also the new reverse flow products

These opportunities are important as the market needs the ability to buy transmission capacity when a shift in price spreads creates an economic rationale to do so. If Shippers cannot purchase transmission capacity when it is most required they may seek to secure gas from other, more expensive sources which would increase costs for consumers, both in the UK and the Netherlands.

Furthermore, there is only a single opportunity to purchase a specific transmission capacity product, for example, monthly transmission capacity can only be purchased on the third Monday of the previous month. Offering monthly transmission capacity further in advance of this, through implicit allocation, will ensure that the extrinsic value or time value of holding BBLC transmission capacity is available to the market.

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BBLC will offer unbundled BBLC transmission capacity via implicit allocations; by offering unbundled transmission capacity Shippers can purchase longer term BBL transport capacity without the obligation to book transmission capacity of a neighbouring network operator at the same time since it is currently most attractive for Shippers to purchase National Grid capacity on a shorter term base, preferably Within Day. BBLC will still be offering bundled products via the auctions on PRISMA.

***Shippers will be able to purchase BBL transmission capacity FF
(and in due course PRF) in advance of delivery by 8 months, 8 quarters,
8 seasons (or contiguous quarters), and 8 GYs (see table 1)***

***There is a fixed commodity charge for each gas year.
For GY18/19 this is €0.109/MWh***

2. IMPLICIT ALLOCATIONS: What's in it for the market?

2.1 Being able to purchase transport capacity when needed

Currently the PRISMA auction timetable limits Shippers' ability to purchase BBLC transmission capacity. The auction calendar has a tightly defined timetable for PRISMA auctions prescribed by EU capacity allocation mechanism network codes (CAM NC) and does not allow TSOs to offer capacity products to the market at any time. A situation can occur that Shippers can not purchase the required transport capacity whenever a shift in commodity price spreads creates an economic rationale to do so.

If Shippers cannot purchase transmission capacity when it is most required they may seek to secure gas from other, more expensive sources which would increase costs for consumers, both in the UK and the Netherlands.

2.2 Increased transparency & solid liquidity

Shippers will be able to purchase BBLC transmission capacity further in advance than under the PRISMA auctions and aligned with the gas commodity market. Also due to the strong liquidity of the NBP/TTF spread in the wholesale market, and with this spread functioning as a hedge to the pipeline physical transmission capacity, BBLC will be able to offer granular products further along the curve e.g. 8 months forward, 8 quarters forward etc. This increases the time that a Shipper may decide to hold transmission capacity and take trading positions around that transmission capacity, which in turn increases the time value or extrinsic value of the transmission capacity.

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2.3 Implicit allocations increases competition

Via implicit allocations an additional sales channel for transmission capacity will be available next to the existing sales channel via the PRISMA platform. Market participants will have additional options to buy transmission capacity, at moments when they want to. Implicit allocations as a consequence increases the level of competition and market liquidity.

2.4 Avoiding unnecessary transaction costs

A further benefit is that implicit allocation helps avoiding unnecessary transaction costs resulting from booking capacity and commodity separately. The model will reduce the administrative costs for market participants. In case of explicit allocation, Shippers are either long or short in capacity rights and this can lead to economic inefficiency. Moreover, in case of contractual congestion, there exists a time difference between capacity release and the risk-carrying act of buying/selling the commodity. As a result, sub-optimal trades arise, or no trades are made when there does exist a profitable opportunity.

2.5 Flexible access to Continental seasonal storage

BBLC believes that the limited storage capacity in the UK has an impact on individual Shipper's portfolios. As a consequence it is important that Shippers can flexibly access storage facilities in continental Europe and thereby make a significant contribution to the UK's security of supply.

BBL's physical reverse flow products, which will be available in 2019, will also contribute to the efficient management of the market by allowing Shippers to flow gas out of the UK for possible injection into continental storage facilities in the summer and returning it during periods of high UK demand.

2.6 Product suite for natural gas trade in implicit allocation

An array of products with varying liquidity and complexity will be made available by the Implicit Allocation Partner (IAP) and presented on the Third Party Communication Platform (IAPM), to align with any transmission capacity trade. Examples can be found in Appendix 1.

3. RULES OF THE GAME: IMPLICIT ALLOCATION OF BBLC TRANSMISSION CAPACITY

3.1 Gas Capacity Allocation Mechanisms: The CAM Network Code and implicit allocation

In order to facilitate gas transport and gas trading across the EU, the Network Code on Capacity Allocation Mechanisms (NC CAM) aims to promote and define harmonised capacity allocation mechanisms.

NC CAM provides two alternative capacity allocation methods which Member States can choose to employ in their gas markets to market their transport capacity:

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The first method: "Transmission system operators shall offer capacity for the relevant standard capacity product on a booking platform, in accordance with Article 37 and in accordance with the applicable allocation procedure. Transmission system operators can operate such platforms themselves or via an agreed party that, where necessary, acts on behalf of them towards the network users".

BBLC is currently complying with this first method by offering the standard transmission capacity products on the PRISMA auction platform, at the times prescribed by the CAM NC and specified in the ENTSOG auction calendar.

The second method is via implicit allocation which Article 3.6 of the CAM NC defines as:

"an allocation method where, possibly by means of an auction, both transmission capacity and a corresponding quantity of gas are allocated at the same time".

In addition, Article 2.5 states that:

"Where implicit capacity allocation methods are applied, national regulatory authorities may decide not to apply Articles 8 to 37."

BBLC used this information as a starting point and developed an implicit allocation process that is compliant with CAM.

3.2 Framework and products offered

BBLC will offer a maximum of 75% of the available technical capacity via the implicit allocation. Implicit allocation capacity products will be offered as firm, unbundled capacity only, compared to the firm and interruptible bundled capacity products offered on the PRISMA auction platform. At any one time there may be several products offered for sale via implicit allocations, as long as they do not clash with an auction on the PRISMA platform for the same product. If implicit allocation capacity fails to sell during the open implicit allocation windows, capacity reverts to the PRISMA system.

BBLC intends to maximise the transmission capacity offered at all times and will continue to offer all unsold transmission capacity through the CAM NC auctions on PRISMA in addition to implicit allocation.

BBLC will offer transmission capacity in periods when there will be no relevant PRISMA auctions. BBLC will offer this transmission capacity at a fixed price for upfront defined products. Through the new system BBLC will offer a wider range of capacity products, including seasonal capacity which currently doesn't belong to the standardized products on the PRISMA platform.

BBLC will offer following capacity products via implicit allocation:

- Monthly, Quarterly, Seasonal, Annual

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3.2.1 Buying capacity and a matching volume of gas at the same time: IAP through IAPM

BBLC as a pipeline operator has transmission capacity to offer to the market and not gas. This means that BBLC needs to find a partner that offers and allocates gas products to the market through a transparent, non-discriminatory mechanism, in order to be able to offer transmission capacity via implicit allocation.

BBLC is proposing to offer implicitly allocated transmission capacity through a partnership with an Implicit Allocation Partner (IAP), along with a Third Party Communication Platform (IAPM). As a result transmission capacity will be allocated at the same time as gas bought through OTC (over the counter) trades.

The use of an IAP and IAPM makes it possible for BBLC to market its transmission capacity in a non-discriminatory and transparent manner since all active participants on the Third party Communication Platform will be able to see how much BBLC transmission capacity has made available and at what tariff.

***The transparency of the platform and the implicit allocation process,
will allow Shippers to see on a real time basis
what volume of transmission capacity is trading***

To complete a transaction, Shippers will need to be a registered BBLC Shipper (be a signatory to BBLC's General Terms and Conditions), have a signed contract with the IAP and have access to the IAPM. BBLC will provide the IAP with a list of registered BBLC Shippers. (see flowchart implicit allocation process on the next page).

As required by CAM NC, the transmission capacity purchased through the IAP will match with a corresponding quantity of gas. The matching will result in two separate transactions:

- Gas transaction (Commodity deal between the Shipper and the seller of the Gas product)
- Implicit Allocation Transaction (Transmission Capacity IA between BBL Company and the Shipper)

The IAP will inform BBLC of the transmission capacity sale and this will become a transaction under a contract held between BBLC and the purchasing Shipper. This transaction will be subject to the terms defined in the contract.

To make sure a Shipper can fully make use of the purchased capacity and will be able to match the capacity with the adjacent TSO article 21 (3) of the CAM NC is applicable also to capacity bought in the IA process. Article 21(3) states: "As from 1 January 2018, transmission system operators shall offer network users holding mismatched unbundled capacity at one side of an interconnection point a free-of-charge capacity conversion service".

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So a Shipper who has bought unbundled BBLC transmission capacity through implicit allocation can use the capacity conversion service to convert unbundled transmission capacity to bundled transmission capacity via PRISMA.

Flowchart implicit allocation process:



3.2.2 Product Compatibility & general rules implicit allocation

Transmission capacity through implicit allocation will not be offered at the same time as capacity on the PRISMA platform. Before the start of a Prisma auction all offered implicit allocation capacity will be removed for sale from the Third Party Communication Platform. Unsold transmission capacity can be offered for sale via implicit allocation again after the PRISMA auction has taken place.

There will be no overlap of capacity being offered at a certain moment in time to make sure no transmission capacity will be sold twice. Implicit allocation capacity will be sold on a First Come First Serve basis.

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Following principles will apply for the implicit allocation process:

- BBLC makes firm transmission capacity products available for sale through the implicit allocation. All transmission capacity will be firm, unbundled capacity.
- BBLC will publish on their website an up-to-date, actual overview of the quantity of offered transmission capacity that will be available for sale through implicit allocation each gas day (day-ahead).
- The quantity of transmission capacity offered through implicit allocation every day can vary between 0 and 75% of the available technical transmission capacity.
- Products released for sale by implicit allocation will be priced in accordance with the BBLC charging methodology and published on the BBLC website.
- Prior to a transmission capacity auction on the joint booking platform PRISMA, BBLC will withdraw the relevant offered transmission capacity from being available for sale through implicit allocation, whilst it is advertised and offered on PRISMA.

The following table provides an overview of the implicit allocation transmission capacity products:

Table 1: Overview of tenors and relevant available transmission capacity

Product Length	Implicit Allocation Offer		Restrictions		Example Purchase Curve	
	Period	Availability	Max. Available Capacity (%)	Profiling	Purchase Date	Available Capacity (tenors)
annual	Gas Year (GY)	8 front GYs	75	none	Nov'18	GY19-GY26
6 monthly	2 contiguous quarters	8 front seasons (OR 8 front contiguous Qs)	75	none	Nov'18	(Q1'19, Q2'19) - (Q3'22, Q4'22)
quarterly	calendar quarter	8 front quarters	75	none	Nov'18	Q1'19 - Q4'20
monthly	calendar month	8 front months	75	none	Nov'18	Dec'18 - Jul'19

3.2.3 Criteria for a "matched product"

Together the offered implicit allocation transmission capacity and the natural gas product form a "matched product".

A matched product must meet the following criteria:

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- Offered implicit allocation transmission capacity may only be allocated by the IAP at the same time as a corresponding quantity of natural gas for a corresponding period of time and;
- The purchase of the gas must be made between a client of the IAP and the Shipper, and be physically settled at specified price;
- The offered implicit allocation transmission capacity must correspond to the quantity and period of the gas product
- Transmission capacity can be allocated to:
 - The long counterparty only (i.e. net recipient of gas)
 - Gas deals that have a non-zero Take-or-Pay quantity (and will match minimum Take-or-Pay level)
- The gas product must be purchased at a delivery point or hub within North West Europe (this includes delivery points and hubs in UK, Belgium, France, The Netherlands and Germany)

3.2.4 BBLC's Transmission capacity tariffs

BBLC publishes the transmission capacity tariff for any potential product offered in line with the BBLC charging methodology. The transmission capacity tariffs will include possible non-standard products sold via implicit allocations and standard products such as Annual, Quarterly and Monthly products sold via PRISMA. Capacity sold via implicit allocation is a First Come First Serve Sale and therefore only involves the reserve price and no additional "surcharge" which could become relevant in case of large capacity demand on the PRISMA platform.

If you wish to clarify any aspect in relation to this document, or have any questions, please contact either Bert van Halen +31 6 1100 5596 or Katharina Ballmann on + 31 6 1100 5352 to discuss.

We look forward to hearing from you.

Yours sincerely,

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Head of Commercial Operations

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Appendix 1: Gas trade examples as “matched products”:

1) Monthly Gas + Monthly transmission capacity NL->UK

Counterparty A (CPA) buys 250,000 Therms of Dec'20 NBP (equivalent to 305.287 MWh/h) from Counterparty B (CPB) at the wholesale market price, for example 67.0 pence per therm (ppt). At the same time CPA wants to buy BBLC transmission capacity from NL -> UK.

Result:

CPA is long 250kT of Dec'20 NBP at 67.0ppt, to be delivered each day through Dec'20. CPA is also long 305.287 MWh/h of BBLC transmission capacity flowing from NL -> UK during Dec'20 at the price specified at purchase and designated by BBLC.

CPB is short 250 kT of Dec'20 NBP at 67.0 ppt, that it will deliver each day through Dec'20.

BBLC has sold 305.287 MWh/h of unbundled firm capacity for Dec'20 NL -> UK

2) Quarterly Gas + Quarterly Capacity NL->UK

CPA buys 300 MW of Q1'20 TTF DA Heren indexed forward from CPB at a price of 0.00 €/MWh premium. At the same time CPA wants to buy BBLC transmission capacity from NL -> UK.

Result:

CPA is long 300 MWh/h of DA indexed TTF. To be delivered each day through Q1'20 at the TTF DA Heren index level. CPA is also long 300 MWh/h of BBLC transmission capacity flowing from NL -> UK during Q1'20 at the price specified at purchase and designated by BBLC

CPB is short 300 MWh/h of DA indexed TTF, that it will deliver each day to CPA through Q1'20 at the TTF DA Heren index level

BBLC has sold 300 MWh/h of unbundled firm transmission capacity for Q1'20 NL -> UK

3) Annual Gas + 6 month Capacity NL->UK& 6 month Capacity UK->NL

CPA buys 300 MW of GY'20 TTF DA Heren indexed forward from CPB at a price of 0.00 €/MWh premium. At the same time CPA wants to buy BBLC transmission capacity from NL -> UK for Win'20 AND UK -> NL for Sum'21.

Result:

CPA is long 300 MWh/h of DA indexed TTF. To be delivered each day through GY'20 at the TTF DA Heren index level. CPA is also long 300 MWh/h of BBLC transmission capacity flowing from NL -> UK during Win'20, and also long 300 MWh/h of BBLC transmission capacity flowing from UK -> NL during Sum'21. Both at the prices specified at purchase and designated by BBLC

CPB is short 300 MWh/h of DA indexed TTF, that it will deliver each day to CPA through GY'20 at the TTF DA Heren index level

BBLC has sold 300 MWh/h of unbundled firm transmission capacity for Win'20 NL -> UK AND 300 MWh/h of unbundled firm transmission capacity for Sum'21 UK -> NL

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4) Annual Gas + 6 month Capacity NL->UK & 6 month Capacity UK->NL

CPA buys GY20 NCG 75% ToP 180/240 day fixed price swing with a GY20 strike and cross. This product has the following volumes: min/max ACQ: 2880 GWh / 2160GWh. At the same time CPA wants to buy BBLC transmission capacity from NL -> UK for Win'20 **AND** UK -> NL for Sum'21. With this natural gas product CPA would only be able to purchase the min ACQ volume, ie 2160 GWh, which equates to 246.575 MWh/h of transmission capacity equivalent

Result:

CPA is long GY20 NCG 75% ToP 180/240 day fixed price swing with a GY20 strike and cross. CPA is also long 246.575 MWh/h of BBLC transmission capacity flowing from NL -> UK during Win'20, and also long 246.575 MWh/h of BBLC transmission capacity flowing from UK -> NL for Sum'21. Both at the prices specified at purchase and designated by BBLC

CPB is short GY'20 NCG 75% ToP 180/240 day fixed price swing with a GY'20 strike and cross

BBLC has sold 246.575 MWh/h of unbundled firm transmission capacity for Win'20 NL -> UK **AND** 246.575 MWh/h of unbundled firm transmission capacity for Sum'21 UK -> NL