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Swindon, 21/08/2018

Consultation on the proposed modifications to your GB Charging Methodology

Dear Mr Neef,

As a registered BBL shipper, RWE Supply & Trading (RWEST) welcomes the opportunity to respond to the above consultation. Our response is not confidential and can be published on BBL's website.

RWEST agrees that BBL should have more flexibility in price setting than currently allowed for 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. However, we do have concerns about some of the proposed changes and think there are other aspects that should be considered. These are detailed below.

Firm quarterly prices

BBL correctly states that tariff predictability is judged as important by shippers and traders. Whist we recognise the need for BBL to have more flexibility to price its capacity in response to market developments BBL should, 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.

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 complicates price setting for no added value. BBL should have suffi-

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cient flexibility to incorporate seasonality within the proposed multiplier range, as it does now (seasonal factors are currently set at 1).

To the extent they are still deemed necessary, seasonal factors must be determined based on credible forecasts of flows or contracted capacity, which will prove challenging for BBL as a merchant interconnector . They should also be fixed for the entire gas year and must not be adjusted within year (unlike multipliers), 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 multiplier" (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 reinforces the case for removing seasonal factors altogether.

Tariff publication notice periods

As previously stated, we think quarterly multipliers should be fixed for the forthcoming 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 notice 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.

Long-term and combination booking incentives

The description of how these two booking incentives will be applied 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 discretion. 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 purpose as the reserve price discount factor, albeit by incentivising bookings over consecutive 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.

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Finally, the description 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 in combination with a continental storage booking, but shippers may have other reasons for combination bookings. 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.

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 multiplier caps being proposed could be said to reasonably address this within the horizons of the short 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 not be 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 they should investigate and consider introducing such a mechanism forthwith, or not re-approving the charging methodology when it comes up for annual review.

Yours sincerely,

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