

BBL Company

Charging Methodology

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Introduction

This document describes the Charging Methodology (CM) that BBL Company (BBLC) proposes to use for future sales of capacity under the provisions set out in the BBLC General Terms & Conditions.

This CM applies to all available non-exempt capacity sold under BBLC’s General Terms & Conditions (GT&C). Capacity that has been sold before the effective date of this charging methodology is subject to the charging methodology that was valid at the time this capacity was originally allocated to the shipper. Congestion management procedures are an exception to this rule. The surrender of capacity and long term-use-it-or-lose-it mechanisms apply to all non-exempt capacity irrespective of the date of allocation.

Background

The BBL Interconnector provides services to flow gas physically from The Netherlands to the UK and non-physical interruptible reverse flow services from the UK to The Netherlands. Commercial operations began in December 2006 with extra capacity provided in 2010 as a result of the installation of the 4th Compressor at Anna Paulowna.

In 2004 an open season was held to gauge market interest in constructing the BBL pipeline. A Charging Methodology (CM) was developed which met the criteria of transparency, objectivity and non-discrimination. This CM took into account key factors such as the capital costs of constructing the pipeline, the operational costs and a reasonable return on capital invested. From the CM BBLC derived the tariffs for the various products on offer.

Sufficient market interest was shown to enable a business case to be made for the construction of the pipeline. The three launching contracts were accepted by the relevant regulatory authorities as being contracts exempt from regulations on tariffs and access rules.

In 2008 the 4th Compressor project was mooted and the relevant authorities agreed that the initial CM could be used for any capacity made available following the installation of the extra compressor. A similar open season was held and as a result five contracts were signed with shippers. It was agreed that the contracts signed in 2010 could not be regarded as exempt contracts.

Objectives

Standard Licence Condition 10(6) requires BBLC to comply with a direction from Ofgem to amend its CM for the purposes of meeting the four Standard Licence Conditions objectives.

Standard Licence Condition 10(11) notes that BBLC shall not make a modification to the CM unless all reasonable steps have been taken to ensure that all persons, including those in other Member States, who may have a direct interest in the CM, including the Authority, are consulted on the proposed modification and has allowed such persons a period of not less than 28 days within which to make written representations.

BBLC believes that this CM is compliant with CMP and CAM. Following the 28 days consultation period and after considering any representations received the CM has been submitted to Ofgem for approval.

Market Environment

BBLC considers that it operates the pipeline in a 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. The CM acknowledges this market environment.

From the approved CM BBLC is able to derive charges for the various products sold and is able to adjust tariffs as appropriate to reflect the competitive situation in the market.

Charging Methodology

BBLC's CM consists of four components described below. Each component is subject to one or more key factors that determine their nature. This CM has been the basis of BBLC's operations since the start of the project in 2004 and was approved on the basis that it met the objectives as set out in Standard Licence Condition 10(4) namely that the CM is objective, transparent and non-discriminatory. Furthermore, in a letter of 24 April 2008 it was concluded that the CM meets the criteria set by the Dutch Minister of Economic Affairs.

Subsequently a fourth objective was added to Standard Licence Condition 10(4) which requires the CM to be compliant with relevant European decisions including Codes. Compliance with this fourth objective is achieved by incorporating the principles of the relevant European decisions into the CM, which may be subject to revision as and when new European Regulations are introduced.

Any change to BBLC's CM has to be compliant with decisions taken by one or both national regulatory authorities. This specifically means that the CM has to be compatible with both jurisdictions. BBLC believes this is possible by incorporating a further level of detail in the Great Britain CM by adding a section that ensures compliance with SLC 10(4) while leaving the remainder of the CM, that is already objective, transparent and non-discriminatory and approved by the Dutch authorities, untouched.

Charging Methodology components

The charges for all capacity products are derived from three of the CM's four components:

1. a fixed fee for capacity
2. an adjustment formula for the duration of the contract
3. an indexation for inflation

The fourth component is not part of the charges for the capacity products and is invoiced to shippers separately based on the allocated use of the capacity rights:

4. a variable fee to cover the cost of energy used to transport the gas

Key factors in the determination of the components

- 1) The fixed fee for capacity was first established in 2006 at the start of commercial operations and confirmed in 2008 prior to the installation of the fourth compressor. The fixed fee has been adjusted with indexation every year since. In the underlying business case the fixed fee reflected the project costs which were originally based, in this case, on the capital costs of the pipeline and installations, operating costs incurred as a result of performing normal business operations and a reasonable return of capital.

This relationship between tariffs and costs still applies. In addition to that, the current market environment requires BBLC to be able to respond quickly to changing market circumstances. Therefore, the fixed fee is now redefined as the combination of three key factors: the base price, the competitive forces and the discount factor.

The base price is what used to be the original fixed fee based on the underlying business case. The base price is still expressed at the 2006 price level and is subject to annual indexation per gas year.

The key factor 'competitive forces from suppliers of comparable services' enables BBLC to adjust the tariffs for each capacity product in order to reflect competitive market circumstances. Prices of competing services are taken into consideration in the determination of the appropriate fixed fee.

To encourage longer term booking of capacity the Y + 1 reserve price may be discounted for future years, namely Y +2 to Y +15. Such discount will be reflected in the reserve price for the relevant years. Any discount will apply to individual years. Shippers will be able to book capacity for individual years: it will not be necessary for them to book consecutive years of capacity.

The fixed fee will be published on the BBLC website.

2) The adjustment formula for the duration of the contract consists of two key factors:

- a multiplier applied to the respective proportion of the reference price in order to calculate a price for a non-yearly capacity product.

The multipliers (MP) are determined for each capacity product:

Yearly (y) capacity product
Quarterly (q) capacity product
Monthly (m) capacity product
Daily (d) capacity product
Within-Day (wd) capacity product

The multipliers of these products are set to ensure sufficient revenues for an economic and financial stable company result and enable BBLC to react to competitive forces from suppliers of comparable services for specific capacity products, thereby enabling competition.

For capacity sold between the effective date of this CM and the introduction of CAM on 1 November 2015, BBLC will apply a comparable multiplier and discount factor that reflect the duration and future start date to incentivise long term future bookings with a duration of multiple years.

The multipliers will be published on the BBLC website.

- a seasonality factor reflecting the variation of demand within the year

The seasonality factor (S) is defined in such a way that the expectation of demand and to be contracted capacity within the year allows BBLC to have sufficient revenues for an economic and financially stable company result. The seasonality factors enable BBLC to take demand fluctuation within the year into account and are determined for each month separately.

The seasonality factors will be published on the BBLC website.

3. When invoicing booked capacity in a future gas year, the reserve price is subject to annual indexation. 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, 2006=100').

The indexation factor will be published on the BBLC website.

The components 1, 2 and 3 and the underlying key factors result in the following formula to calculate the reserve price (RP) for each capacity product separately:

$$\mathbf{RP = FF \times MP \times S}$$

$$\mathbf{FF = BP \times I \times CF \times DF}$$

Where:

RP	= reserve price in €/kWh/h/product period
FF	= fixed fee in €/kWh/h/product period
BP	= base price in €/kWh/h/product period expressed in the 2006 price level
I	= indexation factor to adjust the base price to the current price level
CF	= competitive forces factor
DF	= discount factor
MP	= multiplier due to duration for non-yearly products
S	= seasonality factor

All product base prices (BP) are a specified fraction of the base price of the yearly capacity product. The fraction depends on the duration of the product divided by duration of a year (e.g. the fraction of the year for a month is 1/12, for a quarter is ¼ etc.).

Interruptible forward flow capacity is auctioned when all firm capacity for a product has been sold with a reserve price discounted by 10% on the firm reserve price. In the event of an interruption the shipper will be reimbursed proportionally for the total price paid.

The reserve prices of all capacity products will be published on the BBLC website.

The fourth component is not part of the reserve price for the capacity products and is invoiced to the shippers separately based on the allocated use of capacity rights.

4. The variable fee to cover the energy costs relates to the electricity required to drive the compressors at Anna Paulowna and fuel gas to heat the gas at Bacton and is invoiced to shippers separately from the capacity invoice.

Based on realised flows and energy consumption, average consumption factors will be derived. On a yearly basis the average factor of the previous year will be defined for gas and electricity consumption. Based on the energy purchase agreements for each year the cost per unit for energy (gas and electricity) will be defined.

The variable fees for gas and electricity will be published on the BBL website.

The following formula is used to determine the energy costs:

$$E = A \times Pe + B \times Pg$$

Where:

E	= variable fee to cover the energy costs in €/MWh
A	= constant
Pe	= electricity price in €/MWh
B	= constant
Pg	= gas price in €/MWh

The electricity price, the gas price, both constants and the resulting variable fee to cover the energy costs will be published on the BBLC website.

The total costs (TC) are the combination of the booked capacity, the reserve price (RP), the auction premium (P) if any, and the energy costs (E) for the use of the capacity rights.

$$\text{TC} = \text{booked capacity} \times (\text{RP} + \text{P}) + \text{allocated use of capacity rights} \times \text{E}$$

Where:

TC	= total costs in €
RP	= reserve price in €/kWh/h/product period
P	= auction premium in €/kWh/h/product period
E	= variable fee to cover the energy costs in €/MWh

Capacity bookings and energy costs are invoiced separately on a monthly basis. When invoicing the capacity charges for a future year, the reserve price is subject to annual indexation per gas year. Any auction premium will remain fixed.

Congestion Management Procedure (CMP)

CMP applies to all available capacity and sold non-exempt capacity.

To ensure compliance with Standard Licence Condition 10(4), the CM must meet the relevant CM objectives, namely being objective, transparent, non-discriminatory and compliant with Regulation 2009/715/EC and any relevant binding decision of the European Commission and/or the Agency for the Cooperation of Energy Regulators.

Several principles of CMP are included in the CM and will apply from 1 November 2015 to meet the Standard Licence Condition requirement for compliance with relevant European decisions. These principles are subject to Ofgem and ACM final approval of BBLC's CMP implementation proposal.

- *Capacity charges for oversubscription capacity*
The auction reserve price and general terms and conditions of the oversubscription capacity will be the same as the auction reserve price and general terms and conditions of the capacity product to which the oversubscription capacity is added:

The capacity allocation mechanism for oversubscription capacity will be the auctioning of capacity on the Prisma platform. Oversubscription capacity is firm forward flow capacity. The amount to be offered will be determined in accordance with the CMP regulation.

- *Oversubscription capacity revenue account*
BBLC will keep an account of the cumulative revenues from oversubscription capacity sales minus the buy-back costs. At the end of the calendar year the oversubscription capacity revenues minus the buy-back costs will be split between the network users and BBLC up to a maximum deficit of € 100,000.
- *Maximum buy-back price*
In the event of a buy-back of capacity usage rights BBLC will accept offers from shippers that are no more than the maximum buy-back price. The maximum buy-back price is equal to the TTF and NBP OTC day-ahead spread as published daily by ICIS Heren. If the cost of the buy-back auction is likely to exceed the maximum yearly deficit of € 100,000 the buy-back price will be adjusted proportionally with as a minimum the clearing price of the oversubscription capacity that has to be bought back.
- *Emergency buy-back price*

If insufficient capacity is offered to maintain system integrity, the required capacity will be bought back on a pro rata basis based on booked capacity under BBLC's General Terms & Conditions. In this event the reimbursement will be the same as the maximum buy-back price of the buy-back auction which preceded the pro rata buy-back.

- *Surrender of capacity and capacity from long-term use-it-or-lose-it for non-exempt capacity*

Reallocated surrendered capacity offsets the disposing shipper's payment obligation to BBLC to the extent of the revenue gained from the successfully reallocated capacity. Shippers retain their contractual rights and obligations until the capacity is reallocated and to the extent that the capacity is successfully reallocated. Revenues from reallocated LT-UIOLI capacity offset the disposing shipper's payment obligation to a maximum of the price originally paid for the capacity and to the extent the capacity has been reallocated successfully.

Capacity Allocation Mechanisms Network Code (CAM)

Effective on all available capacity from 1 November 2015.

Several elements of CAM will be part of the CM as of 1st November 2015 to meet the Standard Licence Condition objective of compliance with relevant European decisions. The elements in the revised CM relating to CAM will be implemented on 1st November 2015, the date CAM becomes effective. These principles are subject to Ofgem and ACM final approval of BBLC's CAM implementation proposal.

- *Capacity charges for standard firm and interruptible forward flow capacity products*
BBLC will offer standard firm and interruptible forward flow capacity products in accordance with the Network Code on CAM.

Interruptible forward flow capacity is offered for auction for the product for which firm capacity has been sold out.

- *Payable price*
The payable price in a capacity auction is a fixed price, which means that the payable price will not be changed after the auction except for an annual indexation. The fixed price consists of the reserve price plus the auction premium, if any. The reserve price is set according to the CM described above. The reserve price is subject to annual indexation, the auction premium, if any, is not. Energy costs are invoiced separately based on the allocated use of capacity rights.

- *Capacity Conversion Service for firm capacity*
If BBLC approves a Shipper's request for a capacity conversion in line with GT&C Exhibit G, the original unbundled capacity contract will be decreased with the conversion quantity and period.

For the conversion quantity and period, the shipper shall receive a credit for the reserve price component of the clearing price paid for the relevant bundled capacity auction.

For the conversion quantity and period, the shipper shall remain liable to pay the auction premium component of the clearing price for the relevant bundled capacity auction, and a credit will not accrue in respect of the premium.

The shipper shall be liable to pay both the reserve price and premium for any amount that was allocated in the bundled auction and is not part of the conversion quantity.

The conversion process does not affect existing capacity rights for unbundled capacity, and the shipper shall remain liable to pay the full originally booked unbundled capacity according to the conditions of the original contract to ensure the fixed price nature of the contract.

Glossary

'multiplier' means the factor applied to the respective proportion of the reference price in order to calculate the reserve price for a non-yearly standard capacity product;

'oversubscription capacity' means firm capacity offered in addition to the technical capacity of an interconnection point;

'seasonal factor' means the factor reflecting the variation of demand within the year which may be applied in combination with the relevant multiplier;

'reference price' means the price for a capacity product for firm capacity with a duration of one year;

'reserve price' means the eligible floor price in the auction.