

## Periodic Consultation on Article 26 requirements of the Network Code on harmonised transmission tariff structures for gas, Regulation EU 2017/460 (including UK amendments to the Tariffs Code, Schedule 5)

8 July 2024

### Introduction

Chapter VII of the EU network code on harmonised transmission tariff structures for gas (TAR NC)<sup>1</sup>, Regulation (EU) 2017/460, requires the national regulatory authority or the transmission system operator (TSO) to carry out a periodic consultation on the information in Article 26.

TAR NC was incorporated into UK law by the European Union (Withdrawal) Act 2018 and the European Union (Withdrawal Agreement) Act 2020, as amended by Schedule 5 of the Gas (Security of Supply and Network Codes) (Amendment) (EU Exit) Regulations SI 2019/531.3. A number of amendments were made when TAR NC was incorporated.

You can see what these were here: [The Gas \(Security of Supply and Network Codes\) \(Amendment\) \(EU Exit\) Regulations 2019 \(legislation.gov.uk\)](https://www.legislation.gov.uk/uksi/2019/531/schedule/5/made).<sup>2</sup>

BBLC is now undertaking this periodic consultation as required in Article 26 and the relevant information is contained in this document. Details of how to submit a response are given below.

Most of the information related to Article 26 is included as part of BBLC's Charging Methodology (CM) and the TAR NC derogation application which was approved in 2019 by Ofgem. In this derogation decision, Ofgem also confirmed that BBLC is a 'merchant' asset that competes with numerous alternative providers of flexible gas supply.

Ofgem's TAR NC derogation decision is published on their website here:

[https://www.ofgem.gov.uk/system/files/docs/2019/01/190118\\_ofgem\\_bbl\\_derogation\\_decision.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/01/190118_ofgem_bbl_derogation_decision.pdf)

Other information, such as technical schematics and technical parameters, are available on BBLC's website. The purpose of this document is to provide an overview of all requested information through a single document and provides further information where appropriate.

BBLC is a regulated TSO subject to relevant EU, GB and Dutch national regulations. BBLC owns and operates the BBL pipeline connecting GB and NL. The regulatory framework, that has been in place

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

<sup>2</sup> <https://www.legislation.gov.uk/uksi/2019/531/schedule/5/made>

since the start of operations in 2006, acknowledges the special nature of the BBL interconnector and the competitive energy market environment that the company operates in. As a non-revenue regulated interconnector, BBLC has no captive customers and therefore no baseline demand and no certainty of recovery of costs. With the expiration of the initial long-term capacity commitments, which supported the initial pipeline investment, and changing market conditions, where gas shippers' focus is on shorter term capacity products and balancing their portfolio of low carbon energy sources variability, the market environment faced by BBLC is highly dynamic, competitive and challenging. BBLC faces direct competition from various sources of energy flexibility including:

- Another merchant interconnector (Interconnector Ltd),
- Short duration energy storage,
- Growth in LNG importation facilities in Europe, and
- Energy portfolio companies that are able to manage their energy demand and supply flexibility across gas and electricity portfolios.

This document provides an implementation overview of the required information in Article 26. For the most part the consultations required by Article 26 have been achieved through the annual General Terms and Condition (GT&C) and CM consultation. The latest annual consultation took place from 29th March 2024 through to 29th April 2024 and is now closed<sup>3</sup>. For those requirements where information has already been made available as part of the CM, BBLC will refer to this latest CM consultation document. For Article 26 requirements that are not part of the CM, BBLC will provide detailed information. From 29<sup>th</sup> March 2024 through to 29<sup>th</sup> April 2024, BBLC undertook its annual consultation on proposed modifications to its GT&C and CM to demonstrate continued compliance with the TAR NC.

## **Responding to this consultation**

Stakeholders are welcome to submit their comments on this consultation document via [consultations@bblcompany.com](mailto:consultations@bblcompany.com) by August 6<sup>th</sup> 2024.

The paragraphs to be consulted are shown from the next page onwards. BBLC will discuss any responses received to this consultation with Ofgem. Subsequently, the process as described in TAR NC Article 27 will be followed.

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<sup>3</sup> <https://bblcompany.com/consultations-implementation-information/bbl-company-consultation-on-its-general-terms-and-conditions-and-charging-methodology-2024>

Text in orange is copied from the TAR NC (including UK amendments to the Tariffs Code, Schedule 5).  
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. 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 Charging Methodology, BBLC's price methodology is not related to the technical characteristics of the BBL pipeline transmission system. However, information about the technical capacity at BBLC's only network point is available on BBLC's website.

See 3.1.2. (m): <https://bblcompany.com/transparency> >

<https://bblcompany.com/media/xxrccj5l/technical-capacity-of-the-balgzand-bacton-line-bbl.pdf>

(ii) forecasted 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 decision.

(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.

Following the integration of the BBL-interconnector into the TTF-market area in 2018, BBLC's only interconnection point is at Bacton (GB). BBLC owns a compressor station at Anna Paulowna (NL) and a receiving station at Bacton and 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 any proposed adjustments for capacity-based transmission tariffs at entry points from and exit points to storage facilities, at entry points from LNG facilities and at entry points from and exit points to infrastructure developed with the purpose of ending the isolation of Great Britain or Northern Ireland, or other countries or territories, in respect of their gas transmission systems; ;

This is 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;

Article 5 is about Cost allocation assessments. 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 including its compliance with Article 13 of Regulation [\(EC\) No 715/2009](#) of the European Parliament and of the Council on conditions for access to natural gas transmission networks;

Article 7 states that:

the Reference Price Methodology 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.

- (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 in 2004 when the plans for the BBL-pipeline were developed. It reflects the tariff which justified the initial pipeline investment.

With the expiration of all the launching shippers contracts, the first and largest one ending in 2016, BBLC now operates the pipeline in the highly competitive energy flexibility market environment with many direct and indirect competitors.

BBLC has no captive customers, therefore there is no certainty of any recovery of its 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 gas commodity price spread. The CM acknowledges this dynamic 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;

Article 5 is about cost allocation assessments. Derogation has been granted for Article 5 for the reasons described in Ofgem's decision.

- (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. As a merchant interconnector BBLC has no captive customers and no 'allowed' or 'target' revenue.

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

It is in BBLC's interest to set its tariffs at a level that enables it to effectively compete in the highly competitive market that it serves. If its tariffs were too high, it would discourage shippers from purchasing BBL capacity, and potentially disrupt cross-border energy trading. However, setting tariffs below the operating and capital costs for 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 either the Dutch or GB wholesale gas markets, and is therefore unable to accurately forecast BBL shipper demand for capacity, it needs to be able to dynamically adjust tariffs to reflect changing market circumstances and the needs of its customers.

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.

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;

BBLC's Commodity-based tariffs are levied through variable fees that seek to recover the energy costs related to the provision of electricity to drive the compressors at Anna Paulowna and also the fuel gas to heat the gas at Bacton. More information about the methodology of these variable fees is available in the CM. The commodity-based tariffs are derived from actual incurred costs.

On the BBLC website, BBLC publishes the above referenced variable costs and how the tariffs are calculated from such costs:

<https://bblcompany.com/tariffs/charging-methodology-variable-costs>

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

A regulated 'allowed' or 'target' revenue does not apply to BBLC as it does not have any captive customers.

- (3) the indicative commodity-based transmission tariffs;

BBLC has a daily commodity tariff which is published on its website. See <https://bblcompany.com/tariffs/actual-tariffs-gas-year-2023>

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

- (1) the non-transmission service tariff methodology therefor;
- (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;
- (4) the indicative non-transmission tariffs for non-transmission services provided to network users;

'Non-transmission services' means the regulated services other than transmission services and other than services regulated by Regulation (EU) No 312/2014 that are provided by the transmission system operator. BBLC does not offer non-transmission services and therefore this is not applicable.

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 for each tariff period within the remainder of the regulatory period.

Derogation has been granted for Article 30.2 for the reasons described in Ofgem's decision.

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;

The index is the ratio between the chosen index at the time of use and the same index at the time the product was auctioned;

The tariff linked to a BBLC capacity booking is indexed to the Dutch CPI index. Indexation is applied between the date that the booking is made and the start date of that same booking.

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

BBLC has no regulated allowed revenue. BBLC's charging methodology and incorporated commodity charge formulae has key factors of which the risk premium is one. BBLC may use the risk premium as part of the calculation of the commodity charge at its sole discretion.

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

'Tariff period' means the time period over which a particular level of reference price is applicable. The minimum 'tariff period' duration is one year and the maximum duration is the duration of the relevant regulatory period. Respective rates apply for BBLC's product portfolio. The only interconnection point is at Bacton (GB).

- (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:

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.

## Article 26.3:

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.

BBLC will publish the non-confidential responses to this consultation on its website.

## Article 26.4:

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

Article 27(5) states:

The procedure consisting of the final consultation on the reference price methodology in accordance with Article 26, the decision by the national regulatory authority in accordance with paragraph 4, the calculation of tariffs on the basis of this decision, and the publication of the tariffs in accordance with Chapter VIII may be initiated as from the entry into force of this Regulation and shall be concluded no later than 31 May 2019. The tariffs applicable for the prevailing tariff period at 31 May 2019 will be applicable until the end thereof. This procedure shall be repeated at least every five years starting from 31 May 2019.

BBLC combines its periodic consultation with its obligation under Interconnector Standard License Conditions 10(9) to review the GT&C and CM annually to ensure that it continues to meet the relevant objectives of the Interconnector Standard License Conditions.