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Conclusions report on the responses received on the consultation of the modifications to BBLC's General Terms & Conditions as a result of the BBL interconnector becoming part of the TTF market area

21 July 2017

Introduction

On 9 May 2017 BBL Company (BBLC) and Gasunie Transport Services B.V. (GTS) announced that they proposed to integrate their transport systems. With this integration the BBL interconnector will form part of an enlarged TTF market area, which will connect directly with the GB NBP market area. Detailed information on the proposed changes was published on the BBLC and GTS websites. This included the joint BBLC-GTS information brochure, the Powerpoint slides that were presented during the joint workshop on 23 May 2017, the Pöyry Management Consulting's Cost Benefit Analysis, and, specifically for BBLC the proposed modifications to its Access Rules namely the General Terms and Conditions (GT&C) with an accompanying consultation letter. The proposed modifications to the GT&C have to be submitted to Ofgem for approval after a public consultation has taken place and any written representations have been taken into consideration.

Condition 11A of BBLC's Gas Interconnector Standard License Conditions states that prior to submitting the proposed modifications to the Authority for approval the licensee shall take all reasonable steps to ensure that all persons, including those in other Member States, who may have a direct interest in the Access Rules are consulted on the proposed modifications and allow them a period of not less than 28 days within which to make written representations. Thereafter BBLC is required to furnish to the Authority with a report setting out the terms originally proposed for the modifications, the representations, if any, made by interested persons, any change in the terms of the modification intended as a consequence of such representations, how the intended modifications better achieve the relevant access rules objectives, and a timetable for the implementation of the modifications and the date from which the modifications are to take effect.

Both BBLC and GTS launched a public consultation, separate from each other but with an aligned consultation process, and invited all parties who may have a direct interest to submit written representations.

BBLC consulted its proposed modifications to the GT&C from 9 May 2017 until 9 June 2017 indicating that it was the intention to introduce the changes from 1 January 2018. Stakeholders were invited to comment on the proposed integration of the BBL in the TTF market area and more specifically on the modifications to the GT&C.

The stakeholders were invited to answer the following questions:

- Do you agree that the integration will deliver benefits to the network users in the TTF and NBP market areas?
- Do you agree that the integration will contribute to the further development of the EU internal energy market?
- Do you agree that the proposed modifications to the BBLC GT&C are compliant with European regulations, specifically the European Network Codes?
- Do you agree that the proposed BBLC GT&C modifications are transparent, objective and non-discriminatory?
- Do you have any other feedback?

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Responses received

Twelve written responses of which three are confidential were received. Most parties answered the questions above. However, some chose to submit a general response or chose a structure themselves. Of the twelve responses nine were submitted to both BBLC and GTS. Three were submitted to GTS only. However, these three responses all contain at least a few BBLC specific remarks. Therefore, BBLC has decided to include them in this report.

The three confidential responses were submitted to both BBLC and GTS. These parties agreed to have their comments included in this report on an anonymous basis.

One response was received after the deadline of 9 June 2017. Nonetheless, this response has been taken into account.

The following nine parties submitted a non-confidential response:

British Gas Trading Limited
EFET
ENGIE
GasTerra
Shell Energy Europe Ltd, sent to GTS only
TAQA
VEMW, sent to GTS only
Vattenfall Energy Trading Netherlands N.V. / GmbH, sent to GTS only
WINGAS GmbH

And three parties submitted a confidential response.

Detailed overview of the responses, BBLC answers and changes to the proposed GT&C modifications as compared to the consultation documents

In this paragraph an overview is given of the responses received and an answer is given to each of the comments. Furthermore, the changes to the implementation proposals as compared to the consultation documents as a result of the responses are provided.

The italicized text below contains the comments received from the respondents. All substantive commentary has been included in full. BBLC has not edited the content of the text of the responses in any way. Where a comment is specifically about proposed modifications in the GTS-system, BBLC refers to GTS's consultation report. BBLC provides an answer to each italicized comment from respondents, where applicable, and indicates if any modifications to the GT&C are foreseen in respect of the comment compared to the original proposals

The names of the market parties whose responses are confidential are not included.

Response from British Gas Trading Limited

- *BGTL fully supports the proposed integration of the BBL pipeline into the TTF market area, bringing the NBP and TTF markets closer together, for a variety of reasons which we summarise below:*

  - *GTS & BBL expect an increase in liquidity at both the UK & Dutch hubs – we support their assertion;*
  - *Expectation of increased volume through the hubs should ultimately benefit end-users;*
  - *A positive impact on the BBL reverse flow opportunities would be anticipated as a result of lower transportation costs;*
  - *Market-wide benefits with regards to the balancing costs as a result of GTS access to increased line pack;*
  - *The proposal appears compliant with European Codes and contractually should be straightforward to bring into effect;*
  - *The implementation costs of such a project have been described as 'minor';*
  - *The development is in the spirit of removing barriers to cross-border trading and we would expect such a development to be welcomed by both Ofgem & the ACM.*

  We shall look forward to working with both BBL and GTS as this development is approved by the relevant Regulatory Authority and enters implementation in 2018.

  <u>Response BBLC</u>
  BBLC thanks BGTL for its comments

  <u>Changes to the GT&C modification proposals in relation to this response</u>
  None

Response from the EFET

- *EFET supports simplification of hub access conditions and improvements of liquidity at traded hubs. Thus, the proposed developments contain some positive elements in this respect.*

  <u>Response BBLC</u>
  None

  <u>Changes to the GT&C modification proposals in relation to this response</u>
  None

- ***Do you agree that the integration will deliver benefits to the network users in the TTF and NBP market areas?***

  EFET agrees that the integration of the BBL pipeline into the GTS market area may contribute to further liquidity at the TTF as well as the NBP. The integration may also lead to improved arbitrage opportunities leading to fewer price differences and fluctuations between the two trading hubs.

  Increasing the GTS Buffer leading to fewer balancing actions from GTS should be welcomed, especially if it will lead to an average reduction of €1.5 million per year in balancing cost across all shippers.

  <u>Response BBLC</u>
  None

Changes to the GT&C modification proposals in relation to this response
None

- ***Do you agree that the integration will contribute to the further development of the EU internal energy market?***

EFET agrees that within the aims of the Gas Target Model the integration of BBL into the GTS market area would contribute to the further development of the EU internal energy market.

However, in the proposal, the GTS charges for the network point Julianadorp will be set to zero. The resulting revenue shortfall is to be recovered from an increased charge at all entry and exit points, including the newly added BBL points. This leads to a level of cross subsidization and a transfer of value from one group of network users to another. The creation of windfall winners and losers is not helpful to efficient market decisions. The details of the size of the revenue shortfall and how it would be recovered are therefore critical, and careful thought should be given to them.

Response BBLC
BBLC refers to the GTS consultation report for the comment on the cross subsidization between the GTS network users.

BBLC would like to take the opportunity to clarify what will happen with IP Julianadorp. By integrating the BBL into the TTF market area a single entry-exit system will be created with the TTF as the joint trading hub on which shippers from both transmission systems will be able to trade gas. From a commercial viewpoint IP Julianadorp will no longer exist as a border point between the GTS grid and the BBL interconnector. The capacity tariffs on it will, therefore, not be set to zero. The commercial IP will simply cease to exist. IP Julianadorp will also lose its role as the point where gas from a shipper's GTS portfolio is transferred to its BBL portfolio and vice versa. However, a replacement mechanism needs to be implemented to fulfil this gas transfer role. That will be the TTF. The TTF, in addition to being a joint trading hub, will be used as the virtual transfer point for gas flows between the shipper's portfolios. This virtual transfer point will not have a tariff and shippers do not need to book or nominate on it. The transfer of gas between BBL and GTS portfolios will be fully automated.

BBLC thanks EFET for its comments.

Changes to the GT&C modification proposals in relation to this response
None

Response from ENGIE

- ***Do you agree that the integration will deliver benefits to the network users in the TTF and NBP market areas?***

ENGIE agrees that the intended integration will contribute to improve market efficiency between TTF and NBP. The expansion of the TTF market area will most certainly bring benefits for the market such as a direct connection between TTF and NBP, improved arbitrage opportunities and increased flexibility for the Dutch market.

Response BBLC
None

Changes to the GT&C modification proposals in relation to this response
None

- ***Do you agree that the integration will contribute to the further development of the EU internal energy market?***

ENGIE is in favor of any integration project that will bring efficiency to the European market, and wishes this project to be a first step in that direction.

However, it is to be noted that this integration favors the connection of the Dutch market with the UK market, to the detriment of the connection with the German and/or Belgian markets.

Furthermore, BBL-GTS integration does not help to solve the current unfair situation between the shippers with long-term gas transport subscriptions, who have no possibility to adapt, to amend and/or to terminate those long-term contracts, and the shippers with short-term subscriptions, who are able to adjust their transport capacity continuously in accordance with their varying sales portfolio.

As a consequence, the shippers with long-term gas transport subscriptions cannot effectively compete on a level playing field basis with the short-term shippers, which is not conform with the requirements of European regulations to enhance competition.

Response BBLC
BBLC believes that the integration of the BBL into the TTF market area will deliver benefits to every market participant and will not only favour those who make use of the connection between the Dutch market and the GB market. Although the redistribution of the GTS IP Julianadorp tariff will lead to a slight increase in GTS's other entry and exit points, including the interconnection points between the Dutch market and German and Belgian markets, we expect that the market benefits of the integration will outweigh the negative effects that individual shippers may face at the other Dutch border points. This view is supported by Pöyry in their CBA.

BBLC notes ENGIE's desire to terminate or revise long term capacity contracts if that contracted capacity is not utilized to the extent that was expected at the time of the conclusion of the contract. However, BBLC does not consider that it is appropriate to address this issue in the context of amending BBLC's GT&C.

Changes to the GT&C modification proposals in relation to this response
None

- ***Do you agree that the proposed modifications to the BBLC GT&C are compliant with European regulations, specifically the European Network Codes?***

In line with ENGIE's response to the question above, the amended BBLC GT&C does not provide the right for the shippers with long-term gas transport agreements to decrease their capacity bookings or to early terminate those agreements. This creates discrimination among the shippers and distorts competition which is not compliant with European regulations.

Response BBLC
Same response as above.

Changes to the GT&C modification proposals in relation to this response
None

- ***Do you agree that the proposed BBLC GT&C modifications are transparent, objective and non-discriminatory?***

The modifications themselves proposed by BBLC GT&C satisfy those criteria. However, the BBLC GT&C modified as proposed will not result in objective and non-discriminatory terms and conditions for all the market participants.

We regret that the amended BBLC GT&C does not also address those concerns and continue to replicate the current discrimination of which the long-term shippers are the victims.

Response BBLC
Same response as above.

Changes to the GT&C modification proposals in relation to this response
None

- ***Do you have any other feedback?***

  On the basis of the above, ENGIE suggests that BBLC and GTS seize this opportunity to review the terms and conditions of their long-term gas transport contracts in order to propose a fair and equitable system for all the shippers.

  Finally, ENGIE asks that the shorthaul between production fields (GTS entry point Balgzand) and the BBL remain possible.

  Response BBLC
  Same response as above with regard to the long term capacity contracts.
  With regard to the shorthaul service we refer to the GTS's consultation report.

  BBLC thanks ENGIE for its comments.

  Changes to the GT&C modification proposals in relation to this response
  None

Response from GasTerra

- *GasTerra has taken notice of the proposal of GTS and BBL Company (BBLC) to merge the BBL interconnector with the TTF market area by 1 January 2018.*

  GasTerra generally supports the idea of a more integrated infrastructure supporting the TTF market area as it could improve trading possibilities for network users. GasTerra does recognize benefits for all shippers in the simplification of the operational procedures, as a consequence of which hurdles for flowing to the UK will be removed. However, we do question the way GTS and BBLC propose to implement the merger.

  In the current proposal GTS allows all current bookings on exitpoint Julianadorp (JD) to be cancelled without additional costs, while the availability of the capacity remains unchanged. Subsequently, the forfeited revenues for JD will be socialized among all entry- and exit points from GTS. The proposed socialization of the JD tariffs creates a cross-subsidisation between all network users and parties using the BBL. The socialization will on the one hand result in higher tariffs on all the remaining network points, causing higher costs for all shippers and users in The Netherlands, while on the other hand it will lower the costs for current and future BBL-users. This method of socialization of tariffs is the least cost reflective (user pays) option as there is no direct transportation fee covering the GTS costs for flows towards UK anymore.

<u>Response BBLC</u>
BBLC believes that the integration of the BBL into the TTF market area will deliver benefits to every market participant in it and does not only favour the market participants who make use of the connection between the Dutch market and the GB market. This view is supported by the Pöyry report. For the specific comments on the GTS's tariff redistribution we refer to GTS's consultation report.

<u>Changes to the GT&C modification proposals in relation to this response</u>
None

- *The Pöyry study shows a cost-benefit analysis of the merge. GasTerra would like to point out that this study does not consider some essential aspects.*

  First, the (real) additional costs for shippers resulting from socializing the JD tariffs are not taken into consideration in the study, while the (estimated) perceived advantages, such as avoided balancing actions, are. This does not reflect the full cost/benefit picture.

  In addition, one of the advantages suggested in the Pöyry study is that lowering the transportation costs towards UK could contribute to better arbitrage possibilities between NBP and TTF. While this could be true, it should not be a reason to apply a non-cost reflective discount on the transportation cost on JD. These benefits do not contribute to the TTF market area, but are benefits that potentially can be realised by individual companies. This also applies to the benefits of avoided balancing actions.

<u>Response BBLC</u>
BBLC refers to GTS's consultation report for comments on the cost reflectivity of the GTS tariff redistribution.

However, BBLC would like to respond to the comment that the benefits identified by Pöyry could potentially be realised by individual companies. From GasTerra's argumentation it is unclear to BBLC how GasTerra foresees that the potential benefits such as a more liquid TTF, a more competitive transit route which could lead to a better utilization of the revenue regulated GTS transport system, and more portfolio balancing flexibility through the increased dark green zone which will be free of charge, could be realized by individual companies.

<u>Changes to the GT&C modification proposals in relation to this response</u>
None

- *Given the objections raised, GasTerra suggest not to implement the current proposal but to add the current exit JD tariff (GTS) to the Bacton exit IP (BBL) connecting the TTF to the NBP area. The TSO's GTS and BBLC can divide and settle the costs and revenues amongst each other if desired. In this way the same advantages of the merge will be realized, while avoiding unnecessary cross-subsidisation.*

<u>Response BBLC</u>
BBLC does not agree with GasTerra's view that the same advantages could be realized if the GTS IP Julianadorp tariff is added to the BBL IP Bacton tariff.

BBLC thanks GasTerra for its comments.

<u>Changes to the GT&C modification proposals in relation to this response</u>
None

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Response from Shell Energy Europe Ltd

- *Shell Energy Europe Ltd (SEEL) welcomes the opportunity to comment in response to this consultation. Please see below for answers to its specific questions. As an overriding comment, however, the proposal is to be welcomed as, in several respects, it could be expected to enhance further market integration. In the meantime, please note that this response is not confidential.*

  Do you agree that the integration will deliver benefits to the network users in the TTF and NBP market areas?

  SEEL agrees that the merger could be expected to enhance both TTF and NBP liquidity levels, which would likely lead to greater hub convergence. Increasing the GTS Buffer will also require fewer TSO balancing actions; the average reduction of €1.5 million per year in balancing costs should be welcomed.

  Response BBLC
  None

  Changes to the GT&C modification proposals in relation to this response
  None

- ***Do you agree that the integration will contribute to the further development of the EU internal energy market?***

  Yes, the proposed integration of BBL into the GTS market area would enhance the development of the EU internal energy market.

  Response BBLC
  None

  Changes to the GT&C modification proposals in relation to this response
  None

- ***Do you agree that the proposed modifications to the BBLC GT&C are compliant with European regulations, specifically the European Network Codes?***

  SEEL has been unable to identify any areas of non-compliance.

  Response BBLC
  None

  Changes to the GT&C modification proposals in relation to this response
  None

- ***Do you agree that the proposed BBLC GT&C modifications are transparent, objective and non-discriminatory?***

  Yes, the proposals are clear and do not appear discriminatory.

  Response BBLC
  None

  Changes to the GT&C modification proposals in relation to this response
  None

- ***Do you have any other feedback?***

  We would make two further related points regarding the proposed merger:

  a) *While the proposal will help simplify the flows of gas between NBP and TTF, more clarity is needed with regards to the impact on other tariffs due to the consequential socialisation of costs (due to the removal of the Julianadorp IP);*
  b) *More generally, in relation to capacity utilisation, the key driver ultimately remains the attractiveness of tariff levels set too high and utilisation could expect to be reduced.*

  Response BBLC
  BBLC and GTS will both redistribute the IP Julianadorp tariffs to their respective other network points. The BBL IP Julianadorp tariff will be redistributed in full to BBL IP Bacton. As a result the total cost of transport through the BBL will not change. The GTS IP Julianadorp tariff will be redistributed to their other network points through GTS's revenue collection mechanism in accordance with their Method Decision. For more information on this we refer to GTS's consultation report.

  BBLC thanks Shell Energy Europe Ltd for its positive views.

  Changes to the GT&C modification proposals in relation to this response
  None

Response from TAQA

TAQA is in favour of market integration. It leads to better market functioning and therefore more efficient use of existing infrastructure such as gas storage. TAQA also appreciates the efforts of BBL and GTS to involve stakeholders in their plans. However, TAQA has doubts whether the specific measures proposed are the right/ only ones that should be taken. TAQA has also serious concerns about the process and specifically the lack of formal role for the ACM. Please see below for more detail.

TAQA reaction to specific questions

1) ***Do you agree that the integration will deliver benefits to the network users in the TTF and NBP market areas?***

   Yes, In general the proposed changes allow easier access to the BBL and will cause benefits, mainly for the NBP market area.

Response BBLC
None

Changes to the GT&C modification proposals in relation to this response
None

2) ***Do you agree that the integration will contribute to the further development of the EU internal energy market?***

   Yes, The proposed changes will lead to some additional price conversion between TTF and NBP.

Response BBLC
None

Changes to the GT&C modification proposals in relation to this response
None

3) Do you agree that the proposed modifications to the BBLC GT&C are compliant with European regulations, specifically the European Network Codes?

No comment. TAQA is of the opinion that a legal opinion by an independent law firm would be an efficient way of checking compliance.

Response BBLC
None

Changes to the GT&C modification proposals in relation to this response
None

4) Do you agree that the proposed BBLC GT&C modifications are transparent, objective and non-discriminatory?

No comment.

Response BBLC
None

Changes to the GT&C modification proposals in relation to this response
None

5) Do you have any other feedback?

1. In general, TAQA supports market integration, as it leads to efficiencies in using the existing infrastructure on a regional level. A good example is that continental gas storages play a role in providing security of supply for the UK as the UK itself has limited gas storage capacity.

2. TAQA appreciates the efforts by BBL and GTS to explain the proposals by its publications, workshops and public consultations.

Response BBLC
None

Changes to the GT&C modification proposals in relation to this response
None

3. TAQA places question marks on how to achieve the market integration. Who benefits and who should bear the costs?

a. BBL and GTS stress the benefits for the Dutch market as whole. However, the key beneficiaries of the proposed changes are the LT shippers on the BBL who now no longer need to pay GTS exit costs at Julianadorp (~ €10M/year at 2016 tariffs).

Response BBLC
BBLC agrees with TAQA that shippers who are interested in transport capacity between the Dutch market and GB market are amongst those who will benefit from the integration. In addition, we are confident that the benefits for the market as a whole will also be substantial as is also concluded by Pöyry in their CBA. BBLC does not consider TAQA's

estimation of ~10M per year at 2016 tariffs an accurate future estimate since a significant launch contract expired at the end of 2016.

<u>Changes to the GT&C modification proposals in relation to this response</u>
None

b. *In addition, BBL will benefit, because as a result of removing exit costs at Julianadorp, the BBL becomes more attractive for future customers that will be reflected in future revenues for BBL. The BBL company is very unlikely to sell any DA capacity under the current system. Under the proposed system the integral costs for trading forward flow on a DA basis are estimated at 1.8 €/MWh, compared to 2.4 €/MWh under the current regime. The price difference between NBP – TTF is sometimes between 1.8 and 2.4 €/MWh and under those circumstances the BBL would sell additional capacity. In other words, BBL company will benefit from the proposed changes.*

<u>Response BBLC</u>
We are confident that the integration will further increase the attractiveness of the TTF market area which will deliver benefits to all market users in it. One of these market benefits will be a more competitive transit route between the Dutch market and GB market compared to alternative transit routes between the continent and the GB market. This could lead to a higher utilization of the BBLC and GTS transport systems. We believe that additional capacity sales on the BBL interconnector follow from an attractive TTF market area. BBLC's basic revenue does not change through the tariff redistribution since the BBL IP Julianadorp tariff is added to the BBL IP Bacton tariff.

<u>Changes to the GT&C modification proposals in relation to this response</u>
None

c. *All costs will be recovered from all other entry/ exit points in The Netherlands. TAQA would like to know if other solutions were considered, for instance:*
d. *The most important cost component is the BBL fee itself. This is not mentioned in the proposals.*
   1. *From a market perspective it would be much better if the capacity in the BBL, was auctioned with a reserve price of the true marginal costs. Currently the BBL marginal costs are 0.109 €/MWh. The reserve price for a BBL Auction should reflect the BBL marginal costs*

<u>Response BBLC</u>
Having developed the proposals over a lengthy period of time BBLC believes that it has put forward the optimum solution.

<u>Changes to the GT&C modification proposals in relation to this response</u>
None

   2. *Given that mainly the UK consumers would benefit from increased integration (lower NBP prices) it would worthwhile to consider lowering the UK Entry costs for such an auction. Currently the entry costs are relatively high at ~ 0.83 €/MWh Entry UK.*

<u>Response BBLC</u>
Although GB consumers are expected to benefit from the integration BBLC does not share TAQA's belief that GB consumers will be the main category to benefit. Pöyry's CBA provides an overview of costs and benefits of the integration, with a focus on the Dutch market. Benefits to the GB market are included in addition to this and are not at the

expense of the benefits to the Dutch market. Nevertheless, BBLC would, naturally, welcome lower NTS entry and exit costs at IP Bacton.

Changes to the GT&C modification proposals in relation to this response
None

3. *Non-regulated infrastructure operators like gas storages have lowered their prices to reflect market prices and had to take huge write-offs as prices dropped below the long-run marginal costs (LRMC). TAQA is of the opinion that it is not fair to socialise the costs of the exit point Julianadorp without BBL taking serious steps to lower its prices to better reflect market prices.*

Response BBLC
BBLC, as a merchant interconnector and a non-revenue regulated TSO operates in a competitive environment. It keeps prices under review and as an example in December 2016 lowered the reserve prices for forward flow capacity products by up to 30% for the winter months.

Changes to the GT&C modification proposals in relation to this response
None

4. *We heard that current contracts prevent BBL from lowering their reserve price for the auction to the marginal costs. We assume that BBL refers to the contracts with the existing LT shippers in the BBL. However these existing shippers are also the ones that benefit from the removal of the GTS exit point at Julianadorp. We would suggest that given this big benefit, in return they should allow lower reserve prices on the auction.*

Response BBLC
Shippers with transport capacity between the Dutch market and the GB market will benefit, but there is no change to the basic cost of BBLC transportation as the BBL IP Julianadorp tariff is added the the BBL IP Bacton tariff.

BBLC is able to adjust tariffs as appropriate to reflect the competitive situation in the market. In the decision to adjust tariffs the impact on existing capacity holders is taken into consideration.

Changes to the GT&C modification proposals in relation to this response
None

e. *As mentioned above, another cost component is the entry tariff at National Grid. Why is chosen to only remove the exit fee at Julianadorp without changing the entry fee at National Grid? The effect is now that Dutch network users pay for a measure that mainly benefits UK network users. TAQA is of the opinion that market integration benefits both UK and Dutch markets and costs should be shared accordingly.*

Response BBLC
See BBLC response on 3.d.2.

Changes to the GT&C modification proposals in relation to this response
None

4. *Given the current market conditions we consider it very unlikely that there will be much contractual reverse flow over the BBL; The market is now so efficient that in case TTF price is higher than NBP there will be no forward flow (very rare over the last two years). TAQA supports the proposed investment in physical reverse flow.*

<u>Response BBLC</u>
BBLC does not agree with TAQA's foreseen limited flows over the BBL interconnector.

<u>Changes to the GT&C modification proposals in relation to this response</u>
None

5. *BBL/ Pöyry claims that one of the benefits of the integration is an enlarged green zone. We would like to point out that if the integration does not occur, a bilateral agreement between the two TSO's may also generate the same benefit.*

   <u>Response BBLC</u>
   Besides several contractual and operational challenges that have had to be resolved, BBLC believes it is important to further increase the attractiveness of the TTF market area, particularly as the BBL interconnector will form part of it. Assisting GTS to enlarge the dark green zone, which will be provided by BBLC free of any charge to market users in the TTF market area, is an important step towards that objective.

   <u>Changes to the GT&C modification proposals in relation to this response</u>
   None

6. *TAQA would like to have a legal opinion confirming that the proposals do not affect NC TAR implementation in any way.*

   <u>Response BBLC</u>
   BBLC will submit its proposals on the implementation of the European network code on harmonized transmission tariff structures for gas for approval by the authorities later this year.

   <u>Changes to the GT&C modification proposals in relation to this response</u>
   None

7. *TAQA would like GTS to consider also integrating gas storages into its network, like the systems in Spain in Denmark. Although summer-winter spreads are historically low, they are still between 0.7 – 1.5 €/MWh. Removing entry and exit fees would considerably lower the cost of using gas storages and therefore further lower gas price volatility and improve market functioning.*

   <u>Response BBLC</u>
   BBLC refers to GTS's consultation report for this request

   <u>Changes to the GT&C modification proposals in relation to this response</u>
   None

8. *According to GTS no formal decision by ACM is needed for removing an individual entry or exit point. TAQA could see the logic for this if an entry or exit point is cancelled as a result of cessation of operation of the user of the point. However, this is not a cessation of operation, but a market merger. TAQA is very surprised and concerned about the limited role of ACM on such a fundamental decision. TAQA also wonders if the Ministry was involved and if not, if the Ministry of Economic Affairs should have been involved.*
   a. *TAQA requests a legal opinion on the role of ACM and the Ministry in the process.*
   b. *TAQA would like to know how the inputs by the market will be taken into account.*

Response BBLC
BBLC refers TAQA to ACM and the Ministry for questions about their authority and to GTS for their decision process.

Changes to the GT&C modification proposals in relation to this response
None

9. *With a view to the above, TAQA would like to know what the process of a full merger of BBL and GTS would look like. TAQA understood various stakeholders have concerns (as also expressed by Energie-Nederland during the workshop on 23 May) that this might be a first step for a full merger where all costs of BBL will be socialised via the RAB (regulatory asset base) of GTS.*

Response BBLC
BBLC has made it clear in the published documentation and also at the workshop that with the integration of the BBL interconnector into the TTF market area BBLC will continue to operate as an independent TSO with its own general terms and conditions, assets and tariff methodology. BBLC has different shareholders to GTS and the current proposal is not a first step towards full integration of BBLC and GTS.

BBLC thanks TAQA for its extensive comments.

Changes to the GT&C modification proposals in relation to this response
None

Response from Vattenfall Energy Trading Netherlands N.V. / GmbH

- *Generally speaking Vattenfall supports market integration if this leads to simplification and improvement related to the hub access conditions and liquidity at traded hubs. However, if proposed market integration mainly leads to the discrimination against some shippers and network users, the costs of such an merger have to burdened by those whereas the benefits are not applicable to them, we are not necessarily in favour of a market area merger. In fact Vattenfall questions the arguments and proposed amendments that have been presented by GTS and BBL and raises concerns whether the merging of BBL into the TTF market area is beneficial to all market parties.*

I. Socialisation of costs
In the current proposal, GTS proposes that tariffs at the interconnection point (IP) Julianadorp will be set to zero, while the actual charges will subsequently be socialized among all entry- and exit points of GTS. Eventually, GTS announced that the elimination of Julianadorp exit point will resultin a tariff increase of 1.2% on all entry and exit points of the Netherlands through cost socialization. Hence, Dutch grid users are charged for the merging of BBL into the TTF market area but they do not benefit from this market integration. Furthermore, according to the current proposal British grid users will benefit without being charged for the transport services through the BBL. Consequently, Vattenfall prefers a more cost-reflective method and therefore suggests to add the current Julianadorp tariff to the remaining Bacton IP or to decrease the tariff costs on the entry/exits of BBL on both sides. The European Network Code Tariffs enables an intra TSO compensation of TSOs active in more than one Member State.

Response BBLC
BBLC believes that the integration of the BBL interconnector into the TTF market area will deliver benefits to all market parties in the TTF market area. We do not share Vattenfall's conclusion that Dutch grid users will not benefit. It is our belief that most benefits will directly

result from the reduction in the total costs of transportation between the Dutch market and GB market, which is also a conclusion by Pöyry in their CBA. Although British grid users are expected to benefit also, this will not be detrimental to the benefits to the Dutch grid users.

We do also not agree with Vattenfall's statement that the IP Julianadorp tariffs will be set to zero. It is not possible to apply a 100% discount on a non-existing network point. The creation of the single entry-exit system will lead to the termination of the IP Julianadorp from a commercial viewpoint. Julianadorp will no longer be a bookable network point and will, subsequently, no longer have BBL and GTS capacity tariffs on it. The current BBL IP Julianadorp tariff will be added to the BBL IP Bacton tariff.

Changes to the GT&C modification proposals in relation to this response
None

- ***II. Balancing costs and arbitrage opportunities***
  According to BBL and GTS the integration of the BBL interconnector into the TTF market area leads to price benefits for market participants due to increased arbitrage opportunities and decreased balancing costs which should make up for the 1.2% tariff increase on all Dutch entry and exit points. In these arguments lies the assumption that (all) market parties are:
  - *Interested in trading/shipping natural gas between TTF and NBP but are currently refraining from this due to the level of transportation costs and;*
  - *Looking for ways to decrease balancing costs.*

  Vattenfall feels that these two arguments however do not result in the benefits as presented by GTS. The trading activities in the UK are (currently) not depending on capacities or tariffs of the BBL. Furthermore, Vattenfall – as well as other existing shippers – does not struggle within the current balancing regime of GTS and therefore does not see any potential upside with regards to the increase of line pack and cheaper balancing costs.

  Response BBLC
  In addition to the benefits from increased arbitrage opportunities and reduced balancing costs several other benefits are identified and presented in the various reports and documents that accompanied the consultation. The integration will lead to benefits to the market as a whole. BBLC is aware that individual benefits may not necessarily be relevant to all market parties.

  BBLC appreciates Vattenfall's comment on their experience with the GTS balancing regime. A well-functioning balancing market contributes to the attractiveness of the TTF market area. However, no similar comment from any other shipper has been received. Based on the responses received and the discussions with shippers at our workshop BBLC believes that the large majority of shippers in the TTF market area will favour the increase of the GTS dark green zone and the resulting reduction in balancing costs.

  Changes to the GT&C modification proposals in relation to this response
  None

- ***III. BBL as a stranded asset***
  Taking into consideration the way the merger is currently proposed – particularly concerning the socialisation of costs - and the fact that alternatives, for instance on the reallocation of costs have not been presented to stakeholders one gets the impression the BBL market area merger is mainly proposed as a result of the decreasing income flow of the BBL interconnector. Network users should not be obliged to cover the costs for any stranded asset.

Response BBLC
BBLC believes that the integration of the BBL interconnector into the TTF market area will deliver benefits to all market parties in the TTF market area. In turn an attractive TTF market area is expected to lead to additional capacity sales on the BBL. We do not share Vattenfall's impression of the BBL as a stranded asset.

Changes to the GT&C modification proposals in relation to this response
None

Being in favour of market integration on a general basis - in case this results in benefits to all network users and shippers as well as to improved trading conditions and more hub liquidity – we urge GTS to reconsider its current proposal and discuss our remarks also with the Dutch National Regulatory Authority. We trust GTS will take our concerns into consideration and are more than willing to elaborate more on alternatives presented in our response. Please do not hesitate to contact us, should you wish us to provide additional information or explanation.

Response BBLC
BBLC does not have any further comments to those made previously.

BBLC thanks Vattenfal for its comments.

Changes to the GT&C modification proposals in relation to this response
None

Response from Wingas

- *Thank you for providing us with the chance to formulate feedback on your proposal to merge the BBL interconnector with the TTF market area. Overall, WINGAS supports the proposals as we think the new arrangements will simplify trading and transporting natural gas between TTF and NBP. Network users in both market areas would benefit from the integration.*

  Moreover, WINGAS agrees that the integration of the BBL pipeline into the GTS market area may enhance liquidity both, at the TTF and the NBP. The integration may also lead to improved arbitrage opportunities diminishing price differences and fluctuations between the two trading hubs. Therefore, we support the proposal to redistribute the exit Julianadorp tariff of GTS across the other entry and exit points. We also welcome that the increased system linepack reduces required balancing actions by GTS and thus leads to cost savings for shippers.

  We are pleased to see that BBL and GTS are considering the commercial impact of the design of their network systems on shippers by conducting analysis on how increased flows through their networks can result in lower unit costs for all and on increased arbitrage opportunities for shippers. With this in mind, and to encourage further bookings, WINGAS would suggest that GTS reconsiders their current use of seasonal factors, which can deter shippers from buying capacities and reduce flows through the GTS system.

  Finally, we can agree that within the aims of the Gas Target Model the integration of BBL into the GTS market area would contribute to the further development of the EU internal energy market.

  Response BBLC
  BBLC thanks Wingas for its positive view

Changes to the GT&C modification proposals in relation to this response
None

Confidential response 1

- *In general we appreciate the pro-active approach of GTS and BBLC to push for further market integration and to try to attract shippers in order to increase utilization in the BBL pipeline and to bring additional benefit to North West Europe's largest gas markets.*

  At first view, such market integration may bring some incentives for certain market participants in particular in the light that Exit capacity at Julianadorp including the tariff should cease to exist. However under current proposed conditions and BBL tariff settings, we strongly believe that the merger would have no measurable positive impact to the markets nor will it change the trading behavior and shipped volumes between TTF and NBP.

  Response BBLC
  BBLC notes the views, but has no further comments to make.

  Changes to the GT&C modification proposals in relation to this response
  None

- *Our expectation is based on the fact, that current long term contracts on BBL are only utilized to a marginal extent, though fixed costs can be treated as sunk costs. Remaining additional variable transportation costs (BBL electricity costs, entry NGG charges) exceed observed market spreads between the two hubs most of the time. Therefore we expect that an elimination of Exit Julianadorp tariff will have no measureable impact on BBL flows because the entire transit route will still not be sufficiently profitable. Under this observation it is obvious, that also additional bookings of short-term products will not materialize.*

  Response BBLC
  We agree that in the past several years the total costs for new forward flow capacity bookings were higher most of the time than the market spreads between the TTF and NBP. It is our observation, however, that in the winter of 2016/2017 the spread would have justified new capacity bookings if the GTS IP Julianadorp tariff had been zero as proposed. And without the GTS IP Julianadorp tariff the combined reserve price for within-day virtual reverse flow capacity would have been zero. Furthermore, we believe that the decision to close the Rough storage facility in GB will have a positive impact on flows between the Dutch market and the GB market.

  Changes to the GT&C modification proposals in relation to this response
  None

- *More than about the missing expectations of stimulated BBL flows, xxxxxxxxx is concerned about the intention that GTS will redistribute its missing IP Julianadorp tariff revenue to all its other entry and exit points. Current long term capacity holders on the GTS grid, such as xxxxxxxxx, would be disadvantaged by the envisaged socialization of tariffs in the amount of +1,2% across all other Entry/Exit points in the GTS grid.*

  We'd like to point out, that the socialization of tariffs in the amount of 1,2% would result in a negative economic impact to xxxxxxxxx' transport portfolio in the Netherlands. While a slightly positive economic effect is set in the years 2018 until the end of the contracted BBL capacity, the overall effect on our portfolio is clearly negative considering the long remaining contract term of several GTS contracts.

Response BBLC
Although the redistribution effect will be neutral for the market as a whole, BBLC is aware that individual shipper portfolios will be impacted differently. However, it is not only this effect that should be taken into consideration. The financial benefits from reduced balancing costs and the potential increased transit flows through the GTS-system are expected to have a positive impact on shipper's portfolios. Furthermore, the more competitive transit route between the Dutch and GB markets could lead to new opportunities for shippers in the Dutch market and GB market.

Changes to the GT&C modification proposals in relation to this response
None

- *We are already suffering from volatile and unpredictable gas transmission tariff settings in the Netherlands that in general negatively influence the economics of our Open Season contracts. It goes without saying that without any considerations to modify or terminate long-term contracts, such a market integration of BBL and TTF market area creates an even more misbalanced level playing field for shippers and previous GTS network investors.*

  In light of this negative economic effect to xxxxxxxxx we oppose the realization of the market integration of BBL into the TTF market area under the current proposed conditions.

  Response BBLC
  BBLC does not agree that the proposal to integrate the BBL interconnector into the TTF market area would have to lead to the termination or modification of any existing capacity contract.

  BBLC thanks this market party for its comments.

  Changes to the GT&C modification proposals in relation to this response
  None

Confidential response 2

- *BBLC will 'continue the in-equals-out balancing system' and also says this 'significantly increases GTS'Ss buffer for balancing'. Does this mean the linepack in BBL today is not used? That would be uneconomic, an unused value of 1,5 million per year. It certainly is positive this comes to an end but it is unbelievable this today would be value wasted.*

  Response BBLC
  The buffer gas in the BBL is required for day to day gas flow operations. Without a sufficient amount of buffer gas, flows through the BBL are not possible. In the BBL interconnector more space is available than is currently occupied by the volume of buffer gas that is required for normal transport operations. Part of this space will be made available to GTS, when necessary, to temporarily park excess GTS buffer gas, or to temporarily park BBL buffer gas in the GTS-system if so requested. BBLC will facilitate this operational optimization free of charge, however it will not be without costs for BBLC. Furthermore, several contractual and operational agreements have had to be made. GTS in turn, knowing that BBLC will assist when requested, will include this additional flexibility in their calculations for the size of the dark green zone. As a result the attractiveness of the TTF market area, which the BBL will be part of, will be further increased. As far as we are aware no similar arrangements between TSOs exist.

  Changes to the GT&C modification proposals in relation to this response
  None

- *This integration will contribute to the further development of the EU internal market. I hope the EU internal market in its final form does not mean we will have one single Balancing Zone with one virtual trading point as than the one and only market area manager will have to solve a lot of internal congestion. In solving these it would have to seek the cheapest solution via market mechanisms to be developed.*

  I therefore appreciate this becoming part of the TTF is combined with BBLC and GTS sticking to 'their own balancing rules'.

  Response BBLC
  BBLC appreciates this market party's view on the implemented balancing rules.

  BBLC thanks this market party for its comments.

  Changes to the GT&C modification proposals in relation to this response
  None

Confidential response 3

- ***Do you agree that the integration will deliver benefits to the network users in the TTF and NBP market areas?***

  Yes. Integrating BBL into the TTF market area will deliver a positive effect by reducing transaction costs in both the NBP and TTF market areas. With the removal of Julianadorp IP network users will benefit from a reduction of transactional activities when transporting gas from TTF to NBP and vice versa and lower the threshold of transporting gas between the two markets. In that respect, we believe that the integration is a positive step forward which would, however, need to be accompanied by further measures to address the persisting market problems.

  Response BBLC

  None

  Changes to the GT&C modification proposals in relation to this response
  None

- ***Do you agree that the integration will contribute to the further development of the EU internal energy market?***

  Yes. See above.
  In addition to the above, the integration will solve the long standing capacity mismatch issue at Julianadorp IP, where BBL (entry) capacities could not be matched with GTS exit capacities and BBL Interconnector therefore could not always operate to its maximum efficiency to mitigate extreme prices in either of the connected markets.

  Do you agree that the proposed modifications to the BBLC GT&C are compliant with European regulations, specifically the European Network Codes?

  We assume so, but have not yet completed the assessment.

Response BBLC

None

Changes to the GT&C modification proposals in relation to this response

None

- ***Do you agree that the proposed BBL GT&C modifications are transparent, objective and non-discriminatory?***

  We assume so, but have not yet completed the assessment.

  Response BBLC

  None

  Changes to the GT&C modification proposals in relation to this response

  None

- ***In general we strongly support the integration of BBL into the TTF market area.***

  Response BBLC

  BBLC thanks this market party for its comments.

  Changes to the GT&C modification proposals in relation to this response

  None

Conclusion

BBLC is grateful to the companies who attended the workshop and have taken the trouble to respond formally to the consultation. After careful consideration of all the comments that have been submitted BBLC has concluded that it does not wish to amend the original GT&C modification proposals.