Jont Office for Gas Transporters
Radcliffe House
Blenheim Court
Warwick Road
Solihull
B91 2AA
UK

BBL Company V.O.F.
P.O. Box 225
9700 AE Groningen
The Netherlands
Concourslaan 17
T +31 (0)50 521 35 41
F +31 (0)50 521 35 45
E management@bblcompany.com
Trade register Groningen 02085020
www.bblcompany.com

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Telephone
+31 50 521 2365

Our reference
BBL VOF 21.082

Your reference

Subject
Response to consultation on UNC Modification Proposal 0790

Dear Joint Office,

BBL Company (BBLC) supports the proposal. BBLC agrees that the current differential between the level of National Grid (NGG) Transmission Services Entry Charges payable by shippers holding Existing Contract Capacity (ECC) compared with holders of more recently purchased Entry Capacity is having a detrimental impact on markets and cross border trading and does not, therefore, facilitate competition between shippers.

In BBLC's opinion NGG has demonstrated that, post the implementation of UNC Modification 0678A, the transmission tariff protections applied to ECC has resulted in a significant differential between the unit cost of holding and utilising ECC compared to that applied to more recently purchased Entry Capacity. As such, it is clear to BBLC that shippers holding a significant amount of ECC have a commercial advantage over those without such capacity holdings. Moreover, the current treatment of ECC within the Entry Capacity Reserve Prices tariff methodology, and the effect of the market's utilisation of ECC on NGG's ability to accurately forecast tariff revenues, has led to tariff volatility and uncertainty which undermines markets and shipper competition.

However, BBLC also considers that it is appropriate for those shippers that booked NGG entry capacity prior to April 2017 to retain any accrued benefit from the foresight of booking longer duration capacity. Longer term capacity bookings in general provide efficient signals to transporters for asset provision and they should therefore be encouraged where it is efficient to do so. Therefore, where such benefits have accrued under approved market conditions, BBLC considers that it is right that these shippers should retain such benefits. Indeed, BBLC notes that such protection is in line with Art.35 of the EU Tariff Network Code.

BBLC also notes that at the time of booking the ECC the acquiring shipper would have also understood that, under the prevailing terms of the UNC, the utilisation of such capacity would incur "flow based" commodity charges. Such commodity charges were largely removed with the introduction of Modification 0678A. 0678A therefore arguably facilitated a further additional advantage for ECC holders over holders of more recent capacity.

BBLC therefore agrees with the Proposer that the current situation requires that a more apposite balance be struck between protecting the legitimate accrued benefits of long-term entry capacity bookings made by the holders of ECC and the revenue recovery and market/competition issues identified by NGG in its proposal.

BBLC believes that NGG has demonstrated that the current magnitude of the differential between the capacity and "flow based" tariffs applied to ECC and other entry capacity holdings is adversely impacting competition between shippers to a sufficient degree as to warrant changes to the tariff regime. BBLC also agrees with both NGG's and Ofgem's previous statements that changes to the current entry capacity tariff regime are needed 'at pace' and therefore supports the objective of seeing such changes made prior to the setting of the tariffs that will be applied from October 2022.

BBLC understands, and concurs with, NGG's assessment that in order for the proposed new tariffs to be considered to be compliant with Art.35 of the EU Tariff Network Code, and therefore capable of being applied to ECC holders, such tariffs should be "flow based" in accordance with Art. 4(3). BBLC also agrees that this Article precludes the application of such "flow based" tariffs to Interconnection Points.

The relevant objectives:

BBLC agrees that implementation of NGG's proposals would strike a better balance between the charges levied on ECC and new entry Capacity holders and will result in a more equitable and cost reflective recovery of its 'Entry' Allowed Revenues across all shippers compared to the existing arrangements. BBLC also agrees that the proposal is likely to result in more stable and predictable Entry tariffs. As such, BBL considers that the proposal better facilitates Relevant Objective (d) "*Securing of effective competition: (i) between relevant shippers*" and Charging Relevant Objectives a) "*Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business*" and c) "*That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers*".

Looking forward

Whilst BBLC supports NGG's proposal it also believes that there are still further benefits to GB end consumers that could be achieved through additional reforms of NGG's tariffs and revenue recovery methodology. Specifically, BBLC and Interconnector Ltd have previously presented the output of a report by CEPA to the NTSCMF meeting in June[1] which identified the benefits to end consumers of changing the current 50/50 Entry / Exit revenue recovery split. This study identified a consumer benefit of over £100 million per annum if the current 50/50 entry split is changed to 20/80. BBLC notes that NGG have previously committed to

[1] PowerPoint Presentation (gasgovernance.co.uk)

considering such additional changes as part of a second workstream and looks forward to working with NGG on these further options.

Yours sincerely,

Rudi Streuper
Commercial Manager