

Topic: TAQA reaction to public consultation on BBL and GTS proposals to integrate their transport systems into an enlarged TTF market area

Date: 9 June 2017

From: TAQA Energy B.V. (contact person Robert Jan Maaskant at robertjan.maaskant@taqaglobal.com)

To: Sent to both

- BBL Company VOF (contact persons Marcel Neef and Rudi Streuper at consultations@bblcompany.com)
- Gasunie Transport Services (GTS) (contact person René Schutte at info@gastransport.nl)

Introduction

This is a TAQA reaction to the public consultation on the BBL and GTS proposals to integrate their transport systems into an enlarged TTF market area

- as published on the BBL website¹ and in a consultation letter dated 9 May with subject “GT&C Consultation for the BBL interconnector to become part of the TTF market area” and reference BBL VOF 17.039, and
- as published on the GTS website² and in a consultation later dated 9 May with subject “GTS Consultation on BBL merger with the TTF market area” and reference GTS 17.349.

General TAQA reaction

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.

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.

¹ <https://www.bblcompany.com/news/market-consultation-bringing-ttf-and-nbp-closer-together>

² <https://www.gasunietransportservices.nl/nieuws/marktconsultatie-een-directe-verbinding-tussen-ttf-en-nbp>

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.

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

No comment.

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.
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).
 - 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.
 - 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
 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.
 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.**

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