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Subject: Vattenfall's response to the BBL merger with the TTF market area

Dear Sir/Madam,

Vattenfall welcomes the opportunity to comment on the BBL market consultation, merging the BBL interconnector to the Dutch Title Transfer Facility (TTF) market area in order to bring the TTF and the British National Balancing Point (NBP) closer together. We are basing our response on the consultation documents published by GTS on 9 May 2017 and the information presented at the workshop of 23 May 2017.

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 be 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 result in 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.

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.

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.

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.

Kind regards,

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