

Interconnector (UK) Limited



**Charging Methodology Statement
related to the
IUK Access Agreement
and
IUK Access Code
Applicable from 1 February 2016**

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1. Introduction

This statement sets out the charges that Interconnector (UK) Limited (“IUK”) will apply from the publication date for transportation services provided under an IUK Access Agreement (the “IAA”) and the IUK Access Code (“IAC”). The statement will be revised and reissued when appropriate.

Further information on the charges that apply for transportation services under an IAA is set out in Section F of the IAC. The definitions of terms used in this document can be found in the IAA.

Information about IUK and an electronic version of this publication can be found on the IUK website at www.interconnector.com.

1.1. Contractual Framework

The contractual framework for accessing IUK’s transportation system comprises the IUK Access Agreement between IUK and an IAA Shipper whose gas is transported, and the IUK Access Code - a set of standard rules for transportation services provided by IUK. An IUK information system called ISIS is used to support the commercial operations and provide information for billing purposes and an IAA Shipper has to enter into an IUK System User Agreement to have access.

A summary of the contractual framework is contained in the IUK Access Agreement Summary and copies of the IAA and IAC can be found on www.interconnector.com.

1.2. Units

Charges are expressed and billed as follows:

- Entry Capacity – pence per kWh per hour per duration (p/(kWh/h)/duration)
- Exit Capacity – pence per kWh per hour per duration (p/(kWh/h)/duration)
- Buy-back Prices – pence per kWh per hour per day (p/(kWh/h)/day)
- Registration Fee and Monthly Administration Fee – Pounds sterling
- Imbalance Charges – Pounds sterling
- Fuel Gas Charges – Pounds sterling
- Electricity Charges - Euros

All charges are rounded to 4 decimal places and invoiced amounts will be either in Pounds sterling to the nearest penny or Euros to the nearest euro cent.

2. Capacity Charges

Entry and Exit Capacity charges will be payable when capacity is purchased irrespective of whether or not the capacity is utilised.

Entry and Exit Capacity is made available for sale by means of auctions on the PRISMA platform in accordance with Regulation (EU) 984/2013 (“CAM Code”). In addition, capacity may be made available via a subscription process with the relevant NRA approval.

2.1. Reserve price for Capacity for use during the Gas Year 2015-16

The base reserve prices to apply for Capacity are :

Bacton Entry Capacity = 0.4129 p/(kWh/h)/day

Zeebrugge Entry Capacity = 0.4129 p/(kWh/h)/day

Bacton Exit Capacity = 0.4129 p/(kWh/h)/day

Zeebrugge Exit Capacity = 0.4129 p/(kWh/h)/day

The reserve price of any Capacity sold for durations longer than one day will be the relevant multiple of the above price.

The methodology for calculating the base reserve prices is set out in Appendix 1.

2.2. Reserve price for Annual Capacity offered in March 2016

Annual Capacity is offered to the market in the yearly auction on the PRISMA platform at the following reserve prices:

(a) For Gas Years 2016-17 and 2017-18:

Bacton Entry Capacity = 150.7085 p/(kWh/h)/year

Zeebrugge Entry Capacity = 150.7085 p/(kWh/h)/year

Bacton Exit Capacity = 150.7085 p/(kWh/h)/year

Zeebrugge Exit Capacity = 150.7085 p/(kWh/h)/year

(b) For Gas Years from 1 October 2018 that do not include a leap year:

Bacton Entry Capacity = 164.3970 p/(kWh/h)/year

Zeebrugge Entry Capacity = 164.3970 p/(kWh/h)/year

Bacton Exit Capacity = 164.3970 p/(kWh/h)/year

Zeebrugge Exit Capacity = 164.3970 p/(kWh/h)/year

(c) For Gas Years from 1 October 2018 that cover a leap year¹:

Bacton Entry Capacity = 164.8474 p/(kWh/h)/year

Zeebrugge Entry Capacity = 164.8474 p/(kWh/h)/year

Bacton Exit Capacity = 164.8474 p/(kWh/h)/year

Zeebrugge Exit Capacity = 164.8474 p/(kWh/h)/year

¹ Gas Years 2019-20, 2023-24 and 2027-28

The Entry Capacity Charge or Exit Capacity Charge applicable in a Gas Year for any Annual Capacity allocated in the March 2016 auction, shall be reviewed before the start of such Gas Year in accordance with IAC Section F.

2.3. Reserve price for Quarterly Capacity offered in June 2016

Quarterly Capacity for use in Gas Year 2016-17 is offered to the market in the quarterly auction on the PRISMA platform at the following Reserve Prices:

Flow	Firm Quarterly Product – p/(kWh/h)/qtr					
	Connection Point	Entry/Exit	Oct 16-Dec 16 Q4	Jan 17-Mar 17 Q1	Apr 17-Jun 17 Q2	Jul 17-Sep 17 Q3
UK->BE	Bacton	Entry	37.9868	37.1610	37.5739	37.9868
	Zeebrugge	Exit	37.9868	37.1610	37.5739	37.9868
BE->UK	Zeebrugge	Entry	37.9868	37.1610	37.5739	37.9868
	Bacton	Exit	37.9868	37.1610	37.5739	37.9868

3. Initial Registration Fee

The Initial Registration Fee charged by IUK for any new IAA Shippers signing an IAA during the Gas Year 2015-16 is £9,888. This must be paid before the new IAA Shipper can access ISIS and purchase capacity.

The fee for future Gas Years will be calculated as set out in Appendix 2.

4. Monthly Administration Fee

The Monthly Administration Fee payable by each IAA Shipper under an IAA is £494. This will form part of the Monthly Charge invoiced to IAA Shippers.

The fee for future Gas Years will be calculated as set out in Appendix 2.

5. Maximum Buy-back Price

When IUK implements the Buy-back procedure as set out in the IAC Section C paragraph 3.1, it will accept offers from shippers subject to paying no more than the Maximum Buy-back Price. This is the aggregate price that IUK will pay for offered Entry Capacity and Exit Capacity and will be calculated as the weighted average price paid for that day's Entry Capacity and Exit Capacity plus a premium of 0.8097 p/(kWh/h)/d. The premium for future Gas Years will be calculated as set out in Appendix 2.

6. Forced Buy-back Price

When IUK implements the Forced Buy-back procedure set out in the IAC Section C paragraph 3.2, it will pay an IAA Shipper for the reduction in Entry Capacity and Exit Capacity at the Forced Buy-back Price. This price shall be the price paid by the IAA Shipper for such capacity plus a premium equal to 5% of the weighted average price paid for all Entry Capacity and Exit Capacity for that day.

7. Net OS Revenue Account

IUK will keep track of the revenue from IAA Capacity sales that originated from oversubscription on a cumulative basis over the Gas Year, minus any payments made for Buy-back during that time. The net amount will be allowed to go negative up to a limit, the “**Maximum Deficit**” of £100,000. At this level, if further Buy-back is required, IUK will implement the Forced Buy-back procedure.

At the end of the Gas Year, if the balance in the Net OS Revenue Account is positive, then 75% of this amount will be distributed to all shippers (STA and IAA Shippers, and Sub-Lessees under the STA) based on their allocated flow over the year. If the balance in the Net OS Revenue Account is negative, the amount to be distributed shall be zero.

8. Balancing Charges

An IAA Shipper has an obligation to be in balance on an hourly basis such that its Intended Inputs equal its Intended Outputs. Intended Inputs and Intended Outputs take into account the IAA Shipper's Confirmed Nomination Quantities for Entry and Exit and additionally any Acquiring or Disposing Trade Notifications.

Any differences that occur between allocated Inputs and Outputs (such differences only arise during exceptional circumstances), are allowed to accumulate from one day to the next without any penalty or recompense within an allowed cumulative tolerance for each IAA Shipper of $\pm 560,000$ kWh.

On any Gas Day on which the IAA Shipper's accumulated imbalance exceeds the Allowed Tolerance, a Balancing Charge shall apply as detailed in the IAC Section E and Section F.

9. Fuel Gas Charges

A Fuel Gas Charge shall be payable by an IAA Shipper in respect of any Gas Day on which any Fuel Gas is allocated to the IAA Shipper in accordance with the IAC Section D. Such charge shall be an amount (in Pounds Sterling) equal to the Negative Imbalance Daily Gas Price multiplied by the total quantity of Fuel Gas allocated to that IAA Shipper on that Gas Day (ref. IAC Section F).

10. Electricity Charges

Each IAA Shipper shall pay a monthly electricity charge, an amount (in Euros) equal to the Estimated Compressor Electricity Unit Cost multiplied by the total amount of electricity allocated to that IAA Shipper in that month in accordance with IAC Section D.

For the Gas Year 2015-16, the Estimated Compressor Electricity Unit Cost has been determined as 0.098 Euro/kWh. After the Gas Year a reconciliation will take place based on the actual costs of Compressor Electricity as detailed in IAC Section F.

Appendix 1 – Calculation Methodology and Indexation for base Reserve Price

IUK's Charging Methodology for all charges under the IAA and IAC, including the method for calculating the Reserve Price, has been approved by Ofgem and CREG following a public consultation as meeting IUK's standard licence condition of being objective, transparent and non-discriminatory to both existing and prospective IUK Shippers.

The base value is calculated from the average cost of capacity derived from IUK's Financial Statement for year ending 30th September 2013:

- Tariff based on construction costs = £142,883,000
- Tariff to recover operating costs = £34,901,000
- Total Capacity (kWh/h) = 59,731,735 (equivalent to 45.5 bcm/yr)

AVERAGE COST OF CAPACITY FOR GAS YEAR 2012-13

$$= (£142,883,000 + £34,901,000) * 100 / (365 * 59,731,735) = \mathbf{0.8154 \text{ p/(kWh/h)/day}}$$

An indexation factor is used to calculate the total Reserve Price for IAA capacity for future Gas Years:

- INDEXATION = ratio based upon the Producer Price Index (PPI) = PPI_r/PPI_o (see Appendix 2 for PPI Data)
- PPI_r = the average value of the PPI for the twelve month period ending on 30 June immediately prior to the commencement of the Gas Year which ends on 30 September in year r in respect of which the price is calculated (see Appendix 2)
- PPI_o = average PPI for twelve months ending 30 June 2012 = 106.1083

Calculation of base Reserve Price effective from 1 October 2015

From table in Appendix 2 : PPI_r for 2015/16 = 107.4417

Indexation Factor for 2015/16 = 107.4417/106.1083 = 1.0126

TOTAL BASE RESERVE PRICE FOR CAPACITY FOR GAS YEAR 2015-16

$$= 0.8154 * 1.0126 = 0.8257 \text{ p/(kWh/h)/day}$$

This is split 50:50 into the base Entry Capacity Reserve Price and base Exit Capacity Reserve Price.

Appendix 2 – Calculation of Fees

The following fees will, in future Gas Years, be calculated according to the value of the following –

- (a) Initial Registration Fee:
£10,000*Escalation Factor
- (b) Monthly Administration Fee:
£500*Escalation Factor
- (c) Maximum Buy-back Price premium:
0.8189*Escalation Factor (expressed in p/(kWh/h)/d)

Escalation Factor = PPIr / PPIo

- Where “Producer Price Index” or “PPI” means the “JVZ7” Index numbers of producer prices – “PPI : 7200700000 : Net Sector Output Prices – Output of manufactured products” as published by the Office for National Statistics in the monthly Producer Price Index Dataset (or any successor to such Index published by such Office or any other department of HM Government) at www.ons.gov.uk.
- Where PPIr = the average value of the PPI for the twelve month period ending on 30 June immediately prior to the commencement of the Gas Year which ends on 30 September in year r in respect of which the price is calculated
- PPIo = PPIr for 2014/15 = 108.6583

The relevant PPI data from the above referenced source and used in this document, is reproduced below –

Base 2010=100													
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Avg
2011-12	105.4	105.4	105.6	105.6	105.8	105.7	105.9	106.3	106.8	107.2	107	106.6	106.1083
2012-13	106.8	107.2	107.5	107.6	107.4	107.2	107.6	108.1	108.4	108.3	108.3	108.4	107.7333
2013-14	108.7	108.8	108.8	108.5	108.3	108.3	108.6	108.7	108.8	108.9	108.8	108.7	108.6583
2014-15	108.6	108.5	108.3	107.7	107.6	107.1	106.6	106.8	106.9	107.0	107.1	107.1	107.4417