



Industry Update

17 September 2014

Executive Summary

On 8 April 2014, Interconnector (UK) Ltd (IUK), Fluxys Belgium and National Grid Gas (NGG) launched a consultation, jointly seeking your views on our proposals to implement new European Regulation and to introduce new services from IUK and Fluxys Belgium with respect to a new market model, ZIGMA.

The proposals are outlined in detail in our CAM and ZIGMA Concept Document, which you can view by visiting <http://www.interconnector.com/about-us/what-we-have-to-say/consultations/> or <http://www.fluxys.com/belgium/en/Services/Transmission/MarketConsultations/Consultation>

The consultation closed on 6 May 2014 and we received 15 responses. You can read the 10 non-confidential responses by visiting the above websites.

Stakeholders supported our ambition to increase market liquidity and provide greater flexibility for the market, and responded favourably to a number of our proposals. However several concerns were raised relating to:

- A new Entry-Exit zone with additional balancing requirements
- Complex contractual structure
- The need to preserve Zeebrugge Beach and the current Zeebrugge area arrangements
- The creation of a new virtual hub
- The interim period 1 November 2015 – 30 September 2018, where two market models for the Interconnector would operate in parallel

IUK and Fluxys Belgium have been working hard to find the best way to address these concerns and today we are publishing this Industry Update to:

- Summarise the feedback we received from stakeholders
- Outline how we intend to amend our proposals in response to this feedback
- Invite further comments and questions for discussion at two upcoming industry workshops
- Outline the timeline for further development and implementation of the proposals

In summary, we are proposing to:

- Create a simpler model, with no new Entry-Exit zone or new balancing regime
- Preserve Zeebrugge Beach as a physical hub
- Allow Shippers the option of bundling their IUK capacity with either ZTP or Zeebrugge Beach
- Create new IUK storage services from 1 October 2018

IUK and Fluxys Belgium welcome any feedback you may wish to provide either at the industry workshops on 23 and 25 September in Brussels and London respectively, or in writing by the end of September. IUK and Fluxys Belgium will then develop the necessary contractual changes for formal consultations on the new IAA and separately for Fluxys' existing STAs in January 2015.

CAM and ZIGMA Concept Document: Consultation Responses

Thank you to those who attended our ZIGMA industry workshops and responded to our CAM and ZIGMA Consultation. We rely on the views of our stakeholders to determine the best way to deliver our services and are grateful for your feedback.

Below is a summary of the feedback we received and an outline of the amendments we are making in response.

ZIGMA

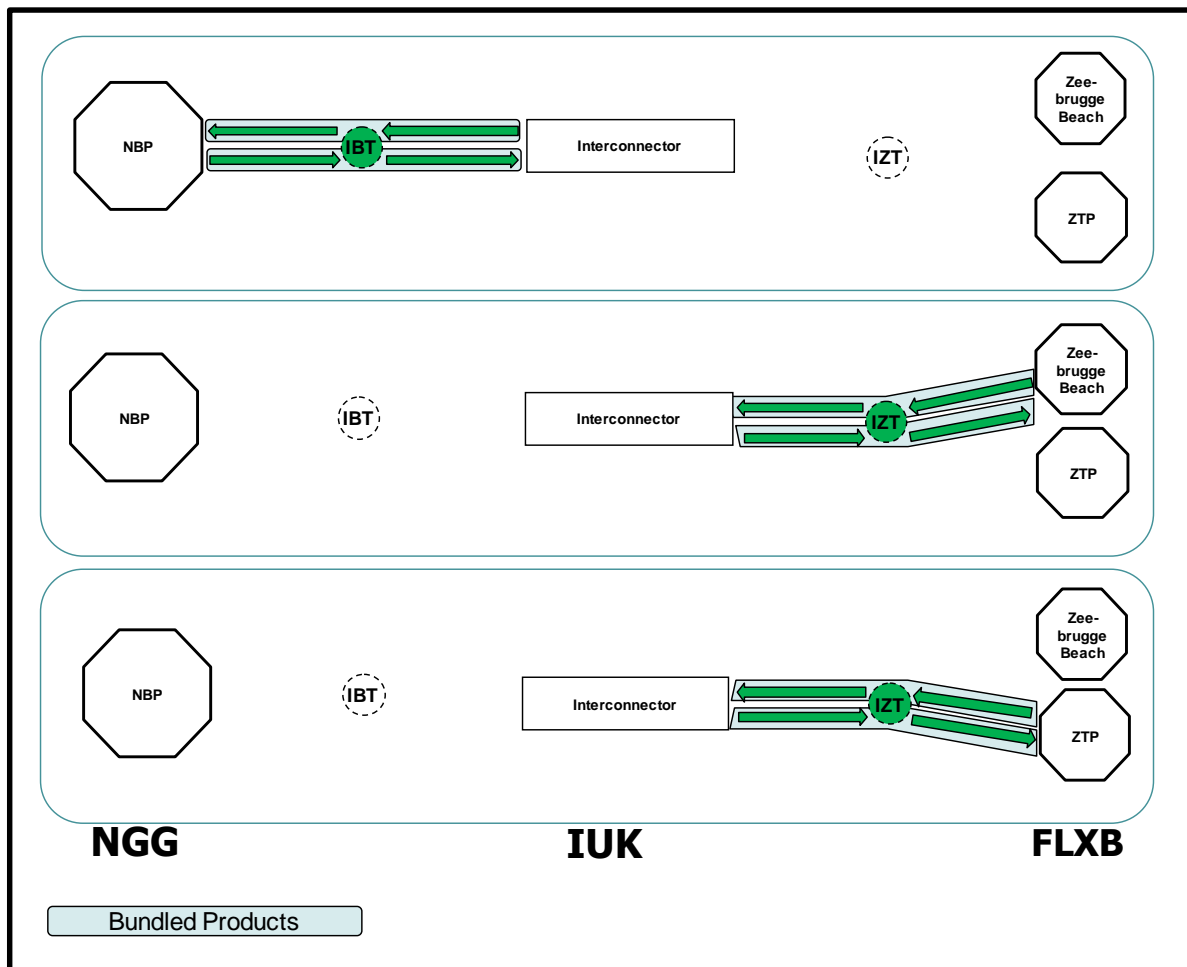
As part of the consultation process, IUK and Fluxys Belgium asked for your feedback on a proposed new market model, ZIGMA, and the accompanying service provision. These proposals included a new balancing regime to comply with the BAL Network Code, a new balancing contract with a Balancing Agent and Within Day Obligations.

We received several questions and comments relating to:

- The creation of a new Entry-Exit zone and the introduction of additional balancing requirements within this zone
- The complexity of the proposed contractual structure
- The need to preserve Zeebrugge Beach and the current Zeebrugge area arrangements. Respondents queried how the Zeeplatform capacity would be transitioned into ZIGMA capacity and whether all current functionality could be maintained
- The creation of a new virtual hub
- Interim arrangements for the period from 1 November 2015 – 30 September 2018, when existing long-term contracts for Interconnector capacity must operate in parallel to any new market model and the quantities of available Interconnector capacity are relatively small compared to post-1 October 2018

Taking into account our stakeholders' views and feedback via the consultation process, IUK and Fluxys Belgium have concluded that we will not be progressing further with the ZIGMA model. IUK will offer bundled Entry-Exit capacities at Bacton and bundled Entry-Exit capacities at Zeebrugge as detailed in the "New Model".

The following bundled products are offered between UK and Belgium:



Benefits of the proposed new model are as follows:

- Reduced complexity:
 - No new Entry-Exit zone with balancing model
 - No new Balancing Agent
- Zeebrugge Beach maintained as a physical trading point
- New bundled product from IUK to Zeeplatform, and options to bundle capacity:
 - IUK to ZTP, or
 - IUK to Zeebrugge Beach
- Simpler IUK balancing model, where In = Out plus:
 - Optional storage services from 1 October 2018
 - Optional trade notifications (commodity transfer) service¹
- SILK and other possible future connections integrated into IUK model, whilst implementing CAM at IPs
- Two IUK IPs (IBT and IZT) allows Shippers to be active in GB or Belgium and choose which capacity products they need¹.

¹ Ownership of gas can change legal entity within the Interconnector using trade notifications (bundling means it is not possible to change legal entity at the Interconnection Point).

Products

Shippers will be able to purchase the following capacity products going forward:

FROM	TO	Underlying Services ²
NBP	Interconnector	IBT NGG Exit, IBT IUK Entry
Interconnector	NBP	IBT IUK Exit, IBT NGG Entry
SILK	Interconnector	SILK IUK Entry
Interconnector	Zeebrugge Beach	IZT IUK Exit, FLXB Zeeplatform Zeebrugge Beach & IZT ^(a)
Zeebrugge Beach	Interconnector	FLXB Zeeplatform Zeebrugge Beach & IZT ⁽¹⁾ , IZT IUK Entry
Interconnector	ZTP	IZT IUK Exit, IZT FLXB Entry
ZTP	Interconnector	IZT FLXB Exit, IZT IUK Entry
Point ^(b)	ZTP	Point ^(b) FLXB Entry
ZTP	Point ^(b)	Point ^(b) FLXB Exit
Zeebrugge Beach	ZZ1	Zeebrugge Beach-ZZ1 FLXB OCUC ³
ZZ1	Zeebrugge Beach	ZZ1-Zeebrugge Beach FLXB OCUC ³
Zeebrugge Beach	ZZ2	Zeebrugge Beach-ZZ2 FLXB OCUC ³
ZZ1	ZZ2	ZZ1-ZZ2 FLXB Wheeling ⁴
ZZ2	ZZ1	ZZ2-ZZ1 FLXB Wheeling ⁴
BLAS	Zeebrugge Beach	Blaregnies-Zeebrugge Beach FLXB OCUC ³
BLAT	Zeebrugge Beach	Blaregnies-Zeebrugge Beach FLXB OCUC ³
Zeebrugge Beach	Zeebrugge Beach	FLXB Zeeplatform (2 points, 3 points or 4 points)
ZPT / IZT / ZLNG	ZPT / IZT / ZLNG	

^(a) Zeeplatform Service gives unlimited transfer rights between the registered points. Having such a Zeeplatform Service is a precondition to participate in this bundled auction. The reserve price for the underlying service between Zeebrugge Beach and IZT will be zero in the bundled capacity auction Zeebrugge Beach to Interconnector or Interconnector to Zeebrugge Beach.

^(b) Such Points are: Zeebrugge Beach, ZPT, ZLNG, Zelzate 1, Zelzate 2, Zandvliet H, 's Gravenvoeren, Eynatten 1, Eynatten 2, GD Lux, Blaregnies Segeo and Blaregnies Troll.

Once a Shipper has purchased capacity, it will be able to send nominations to IUK and/or Fluxys Belgium, as appropriate, indicating how it wishes to use these products.

From 1 October 2018, storage services will be available from IUK in addition to transportation services. These services are to be developed, but IUK is intending to offer products over a range of time periods.

These products can be purchased independently.

Implementation: Interim and Enduring Arrangements for IUK⁵

IUK has existing capacity contracts that extend to 30 September 2018, the IUK Standard Transportation Agreements (ISTAs). The proposed new model will be implemented from 1 November

² This table focuses on the services offered between Interconnector and the Zeebrugge area. For the complete list of services offered by Fluxys Belgium, reference is made to Fluxys Belgium's current service offer as published on <http://www.fluxys.com/belgium/en/Services/Services>

³ OCUC – Operational Capacity Usage Commitment as currently offered by Fluxys Belgium

⁴ Wheeling Service as currently offered by Fluxys Belgium

⁵ For the avoidance of doubt, on Fluxys Belgium side, the interim model will equal the enduring model

2015 under the IUK Access Agreement (IAA) which is a new contract that will operate alongside the ISTAs⁶. The product offering will develop as described in the table below, as we transition from the interim period (1 November 2015 to 30 September 2018) to the enduring regime (post-1 October 2018).

For the interim period, any capacity available under the IAA originates from the implementation of the Congestion Management Procedures outlined in amended Annex I to Regulation (EC) No 715/2009⁷. This includes any Oversubscription Capacity (OS Capacity) that IUK may make available plus any capacity that has been surrendered by an ISTA Shipper or released through the Long Term Use It Or Lose It (LT UIOLI) mechanism that applies to the ISTAs.

From 1 October 2018, it is anticipated that all of the capacity at IBT and IZT will become available subject to, amongst other things, the availability of the facilities, contractual terms and conditions and the prevailing market and regulatory conditions. Also from 1 October 2018, storage services in the Interconnector will become available.

The following table outlines the development of the IAA at each stage.

IAA FEATURES	CURRENTLY AND UNTIL 1 NOV 2015	1 NOV 2015 – 30 SEPT 2018	1 OCT 2018 ONWARDS
Amount of Capacity Available	From CMP ⁽¹⁾ : Oversubscription, Surrender & LT UIOLI	From CMP ⁽¹⁾ : Oversubscription, Surrender & LT UIOLI	All technical capacity ⁽²⁾
Duration of Capacity Products	Day-Ahead	Annual, Quarterly, Monthly, Day-Ahead (if available from CMP)	Annual, Quarterly, Monthly, Day-Ahead Within-Day
Method of Sale	Auctions held on ISIS ⁽³⁾	PRISMA CAM auctions	PRISMA CAM auctions
Storage Products Available	N/A Inventory owned by ISTA Shippers	N/A Inventory owned by ISTA Shippers	Services to be developed covering a range of time periods
Balancing Regime	In = Out Balancing services from ISTA Shippers to cover steering differences	In = Out OBA in place with Fluxys Belgium and envisaged with NGG to cover steering differences	In = Out Option to purchase storage from IUK or trade storage on secondary market

⁽¹⁾ For details of CMP mechanisms implemented by IUK, please see <http://www.interconnector.com/about-us/what-we-have-to-say/consultations/> and refer to section on Previous Consultations

⁽²⁾ Subject to the availability of the facilities, contractual terms and conditions and the prevailing market and regulatory conditions

⁽³⁾ Interconnector Shipper's Information System

⁶ A consultation was held on the IAA, and is available to view at <http://www.interconnector.com/about-us/what-we-have-to-say/consultations/>. IUK is currently in the process of seeking the relevant regulatory and commercial approvals for this contract.

⁷ Amended guidelines for CMP in Annex I of Regulation (EC) No 715/2009 were published in the European Official Journal, on 24 August 2012, following approval by the European Parliament and Council:
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:231:0016:0020:en:PDF>

Balancing Model

Under the proposed model, IAA Shippers will be responsible for balancing their portfolios by properly adjusting their Interconnector entry and exit quantities. Within-day IAA Shippers will be required to be in balance such that inputs equal offtakes on an hourly basis. Interconnector does not connect to any sources of demand and consequently this requirement can be met⁸. Since IAA Shippers will always be in balance, no daily imbalance charge will be introduced.

From 1 Oct 2018, Shippers will be able to purchase storage services.

It is currently envisaged that an Operational Balancing Agreement (OBA) will be in place between NGG and IUK by 1 Nov 2015, in addition to the OBA already in place between Fluxys Belgium and IUK.

For Fluxys Belgium, the currently applicable balancing regime remains in place for the H-zone and for the L-zone.

CAM

We asked for your feedback on our proposals for implementing the CAM Network Code, specifically whether you agreed that:

- Our proposals were compliant with CAM
- We should set aside some capacity for short-term sales in accordance with CAM
- We should offer the facility to submit single-sided nominations for both bundled and unbundled capacity if the same entity owns the capacity both sides of the IP
- Surrendered capacity that is not reallocated in an auction should not be automatically rolled forward to a future auction

The majority of stakeholders supported our proposals for implementing the CAM Network Code.

Two respondents queried whether bundled capacity could become unbundled through the surrender process and whether this is in accordance with CAM. We can confirm that there are scenarios where unbundling can occur due to the interaction of CAM and CMP.

IBT

IUK and NGG intend to implement CAM at IBT as detailed in section 3 of the Concept Document.

New CAM Processes for IZT

IUK and Fluxys Belgium intend to implement CAM mechanisms equivalent to those outlined in sections 3 and 4 of the Concept Document at IZT.

This involves the following joint processes and TSO co-operation:

- Co-ordination of maintenance (as required by CAM article 4 & 7(2))
- Technical capacity calculation and maximisation (CAM article 6) and ongoing communication regarding available capacity
- Allocation methodology (CAM articles 5, 8, 11, 12, 13, 14, 15, 16, 17, 18)

⁸ there is no internal consumption within the Interconnector apart from own-use consumption for compression and/or heaters

- Offering firm and interruptible capacity, including short-term set-aside (CAM articles 9, 10 & 21)
- Nomination processes and data exchange, including allowing single-sided nominations and double-sided nominations and allocating via an OBA
- Application of CMP on bundled products (Buy-back, Surrender and LT UIOLI)

General

We can now confirm, after receiving positive feedback to our consultation questions, that

- We will endeavour to enable single-sided nominations for unbundled capacity if the same entity owns the capacity on both sides of the IP, for IBT and IZT, and
- Surrendered capacity that is not reallocated in an auction will not automatically be rolled forward to future auctions

Way Forward

IUK and Fluxys Belgium will be jointly hosting two industry workshops, on 23 and 25 September in Brussels and London, respectively. At these workshops we hope to be able to answer any questions you may have and to gather your feedback on the model outlined above. Invitations to the workshop have been circulated to the industry.

IUK and Fluxys Belgium will then develop the necessary contractual changes for formal consultations on the new IAA and separately for Fluxys' existing STAs in January 2015.

We welcome any written feedback you may wish to provide. We request that you provide any such feedback by the end of September to info.transport@fluxys.com and consultation@interconnector.com.

For any further questions, please contact:

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