

2<sup>nd</sup> July 2015

Dear Stakeholder,

**Interconnection Agreement between National Grid Gas plc (NGG) and Interconnector (UK) Ltd (IUK): Publication of proposed changes to the agreement**

The NGG-IUK Interconnection Agreement (IA) describes how NGG and IUK work together to flow gas on behalf of shippers at the Bacton Interconnection Point (IP).

NGG and IUK are proposing to amend the IA to reflect changing operational practice and to take account of new requirements established by the EU Network Codes.

We are publishing in Annexes to this letter, key provisions from the amended IA that affect shippers. We are proposing to give effect to the amended IA from 1<sup>st</sup> October 2015 (although certain proposed new provisions will not take effect until 1 November 2015).

In this letter and at our planned workshop on 2<sup>nd</sup> July 2015, we aim to help you understand the proposed changes by setting out:

- Background information relating to NGG, IUK and the role of the IA (Part 1)
- The process to date (Part 2), including:
  - a summary of the drivers for change; and
  - the development of the amended IA through (where appropriate) stakeholder engagement.
- Key changes that NGG and IUK are proposing to make to the IA and the potential impact on stakeholders (Part 3).

We are inviting you to review the following elements of the IA, which are annexed to this letter, and to provide any feedback on them (Part 4) by 30<sup>th</sup> July 2015:

- Network Entry Provisions;
- Network Exit Provisions;
- Measurement Provisions;
- Capacity;
- Nominations and Matching;
- Operational Balancing Account (OBA) including allocation rules; and
- Communication in exceptional events (part of the Local Operating Procedures (LOPs)).

## **PART 1: BACKGROUND INFORMATION**

### **The Operators**

IUK is the owner and operator of the Interconnector Pipeline between Bacton in the UK and Zeebrugge in Belgium. The bi-directional pipeline provides a strategic link between the UK and continental European gas markets. As such, IUK plays an important role in the realisation of the single European gas market and the provision of security of supply to both the UK and continental European markets.

NGG is the owner and operator of the gas National Transmission System (NTS) in Great Britain that connects with the Interconnector Pipeline at Bacton. The NTS plays an important role in facilitating the competitive gas market and provides the UK with a secure gas supply. It has a network of pipelines, which transports gas safely and efficiently from coastal terminals and storage facilities to exit points from the system. The Network Exit points are connections to Distribution Networks (DNs), storage sites, direct connections to power stations, large industrial consumers and other systems, such as interconnectors.

### **Interconnection Agreement (IA)**

The term 'Interconnection Agreement' refers to an agreement between two Transmission System Operators (TSOs) whose systems are connected. It sets out the operational rules that those TSOs agree to adhere to at the relevant Interconnection Point (IP).

NGG and IUK have operated in accordance with their IA at Bacton since 1998, when IUK began operations. This IA covers a variety of topics including notification of flow rates, gas quality and the maintenance of facilities. It has been updated on previous occasions to reflect changing operational practices and to ensure continued compliance with regulatory requirements.

## PART 2: PROCESS TO DATE

### Drivers for Change

In recent years there have been a number of changes to the legal and regulatory framework that applies to TSOs, interconnectors and/or IPs. Key among these changes is the introduction of the Third Energy Package. The Third Energy Package includes Regulation (EC) No 715/2009 on conditions for access to the natural gas transmission networks (the 'Regulation'). The Regulation provides for the establishment of a number of binding Network Codes, of which the following are of direct relevance to the IA:

- the Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems (Commission Regulation (EU) No 984/2013) (CAM) which applies from 1 November 2015;
- the Network Code on Gas Balancing of Transmission Networks (Commission Regulation (EU)(No 312/2014)(BAL) which applies from 1 October 2015; and
- the Network Code on Interoperability and Data Exchange Rules (Commission Regulation (EU) 2015/703) (INT) which applies from 1 May 2016.

CAM introduces rules to ensure efficient, transparent and non-discriminatory access to infrastructure networks. Specifically, CAM establishes rules relating to how capacity can be offered and allocated, including standard cross-border capacity products and auction rules. It also includes aspects of TSO cooperation, in order to facilitate capacity sales, including the use of a joint booking platform and the offering of bundled capacity products.

BAL sets out harmonised rules on balancing to give Network Users greater flexibility and certainty in relation to their balancing positions across adjacent balancing zones. It includes rules relating to nominations, which have been taken into account within the revised IA.

INT sets out standards for TSO cooperation to assist in the ongoing work to integrate the EU's gas pipeline network. The primary aim of INT is to ensure that Network Users can transport gas across several IPs and do not experience technical, operational, communications-based or business-related barriers caused by a lack of alignment of TSO practices at IPs.

INT sets out the various matters that are to be addressed in an IA. INT also provides for TSOs inviting comment from network users on the proposed text of certain aspects of any such agreement at least two months before it is concluded or amended.

Notwithstanding that INT does not apply until 1 May 2016, IUK and NGG have decided to invite comments on the proposed text of the relevant provisions of the IA.

### Stakeholder Engagement

NGG and IUK have sought stakeholder feedback throughout the process of developing the proposed IA amendments which may impact Shippers. This has included:

- Stakeholder consultation on CAM implementation jointly launched by NGG, IUK and Fluxys Belgium on 8 April 2014, and associated industry workshops
- A series of stakeholder consultations and workgroup meetings and reports under the UNC modification process applicable to NGG and its Shippers (outlined below)
- NGG EU Gas Codes workshop on 23 January 2015, which provided an opportunity to speak to PRISMA, Xoserve, NGG Operations Teams and IUK and BBL Interconnector Operators
- Stakeholder consultation on amendments to the IUK Access Agreement (IAA).

This document discharges NGG's proposed obligation to consult its shippers as detailed in its Modification 0525 in respect of the IUK Bacton IP. Should you require any further information, please click on this link [Mod 525 legal text for retrospective approval for consultation](#) (Part VB – Interconnection Agreements condition 1).

### **PART 3: SUMMARY OF KEY CHANGES**

The Annexes to this letter contain the proposed amendments to the IA provisions covering a number of areas that may impact shippers. A summary is provided below of the key changes:

#### **Network Entry and Exit Provisions**

- Minor updates are proposed to the Network Entry Provisions but there is no change to the technical specifications.
- Similarly, minor changes are proposed to the Network Exit Provisions to reflect Exit Reform and allow some operational flexibility on flow rates. No changes are proposed to be made to the technical specifications.

#### **Measurement Provisions**

- Minor updates have been proposed to reflect the introduction of an Operational Balancing Account (see below) and the requirement of INT to specify the standards and configuration of measurement equipment.

#### **Capacity**

- These are proposed new provisions to implement elements of CAM. Their content has already been the subject of a joint NGG-IUK stakeholder consultation on 8 April 2014 and of UNC Modification 500 in relation to NGG. The provisions facilitate NGG and IUK making capacity available on a Joint Booking Platform, (PRISMA), in bundled auctions, using standard products and standard durations.

#### **Nominations and Matching**

- These are proposed new provisions to implement certain elements of CAM, BAL and INT. This annex sets out how each operator proposes to process nominations from its respective shippers, including lead times, applicable deadlines, and facilitates 'single sided nominations'. It also sets out the default matching rule. These provisions were also addressed in NGG's UNC Modification 493.
- The proposed matching provisions reflect those that have been in use at Bacton since IUK operations began and are currently overseen by the Bacton Agent. The main change is that NGG shippers will, under the new arrangements, submit their nominations to NGG, who in turn will pass on the nominations to IUK to facilitate the matching process.

#### **Operational Balancing Account ("OBA")**

- The proposed new provisions facilitate more efficient operations and compliance with INT. The OBA proposes to change the existing arrangements so that TSOs can provide an 'allocate as nominate' service to their shippers. TSOs will operate an OBA to track

any steering differences within an agreed range. The aim will be to minimise steering differences and to effect corrective measures if the agreed tolerance range is breached. UNC Modification 510 seeks to implement the new provisions between NGG and its shippers.

**Communication in exceptional events (forming part of the Local Operating Procedures (LOPs))**

- The LOPs have been updated to reflect the proposed changes to the IA and the communications that will take place between TSOs in an Exceptional Event (defined for NGG, as a UNC 'Transportation Constraint').

**PART 4: YOUR REVIEW**

IUK and NGG invite stakeholders to review the proposed provisions of the IA that are annexed to this letter. Please email any feedback or questions you may have to [consultation@interconnector.com](mailto:consultation@interconnector.com) and [box.gas.market.development@nationalgrid.com](mailto:box.gas.market.development@nationalgrid.com) by close of business on Thursday 30<sup>th</sup> July 2015.

Please note that any feedback not marked confidential may be published on NGG's and/or IUK's websites. Confidential comments may be shared with Ofgem.

All of the comments will be gathered together and NGG will issue a consultation report for interested parties by Tuesday 25<sup>th</sup> August.

We look forward to hearing from you.

Yours faithfully

Darren Reeve  
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IUK

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National Grid Gas

**ANNEXES:**