ANNEX B: Proposed changes to IUK's Charging Methodology (marked version compared to the current approved version)

Interconnector (UK) Limited

Charging Methodology

related to the

IUK Access Agreement

and

IUK Access Code

~~March 2018~~Consultation Draft

October 2018

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1 Introduction

Article 15/5bis, § 15 of the Belgium Gas Act and Condition 10 of Interconnector (UK) Limited's ("IUK") GB interconnector licence requires IUK to prepare and submit for the respective National Regulatory Authority "NRA" approval, a Charging Methodology for access to the interconnector. Regulation (EU) 2017/460 ("TAR Code") also outlines rules on the application of a reference price methodology, the associated consultation and publication requirements as well as rules for the calculation of prices for CAM Standard Capacity Products[1].

This document sets out the methodology that Interconnector (UK) Limited ("IUK") will apply to charging for transportation services provided under an IUK Access Agreement (the "IAA") and the IUK Access Code (the "IAC"). Capitalised terms not defined in this document have the meaning given in Appendix B to the IAA.

~~Until 1 October 2018 Transportation services under the long term Standard Transportation Agreements ("STA") will continue to run in parallel with transportation services under the IAA.~~
Any available capacity will be offered as products with standard durations by IUK by means of an Allocation Mechanism (CAM auctions or other Allocation Mechanisms e.g. Implicit Allocation or a Subscription Process subject to relevant NRA approval). The IAA and IAC are NRA approved.

1.1 Background

IUK provides gas transportation services directly under the IAA. ~~two contracts: the STA and the IAA. Parties can be signatories to either or both of these contracts, allowing them access to capacity in the IUK transportation system.~~

~~The STA is a long term contract under which all technical capacity was sold following open seasons, until 30 September 2018 (Gas Day). A number of secondary market mechanisms are available to allow third parties to access this capacity which has been actively traded since 1998.~~

[1] Regulation (EU) 2017/459 (the "CAM Code") defines Standard Capacity Products as Yearly, Quarterly, Monthly, Daily and Within Day capacity products.

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The IAA is a contract that enables ~~shippers~~ Shippers to access and use the transportation system through booking both long term and short term entry and exit capacity dependent on availability. ~~From 1 October 2018, all unsold technical capacity will be available to buy under the IAA.~~

To access IAA Capacity a prospective ~~IAA~~ Shipper signs an ~~IUK Access Agreement~~IAA and the terms of that agreement and the ~~IUK Access Code~~IAC have effect between IUK and the ~~IAA~~ Shipper from that date. Any person can sign up for these transportation services subject to meeting the criteria set out in the IAA to be a~~n IAA~~ Shipper.

1.2 Units

Charges and prices are expressed as follows:

- Entry Capacity – pence per kWh per hour per capacity duration
- Exit Capacity – pence per kWh per hour per capacity duration
- Buy-back Prices – pence per kWh per hour per day
- Registration Fee and Monthly Administration Fee – Pounds sterling
- Imbalance Charges – Pounds sterling
- Commodity Charges – pence per kWh

IUK offers capacity in kWh/h and all capacity prices and related charges are calculated as pence per kWh/h per hour (p/(kWh/h)/h) and then aggregated to a per runtime basis for Capacity Products. Capacity prices and charges will be calculated using the relevant p/(kWh/h)/h and the hours in the billing period. Invoiced amounts will be either in Pounds sterling to the nearest penny or Euros to the nearest cent.

2 Capacity Prices

2.1 General Principles

Entry and Exit Capacity will be made available by IUK for sale under an IAA by means of an Allocation Mechanism (CAM auctions or other Allocation Mechanisms e.g. Implicit Allocation or a Subscription Process subject to relevant NRA approval). In any given Allocation Mechanism the same terms and conditions apply to all Shippers.

Prices will be published on IUK's website (and other relevant platforms) in advance of the relevant Allocation Mechanism. Annex 1 outlines the IUK publication timetable and how Implicit Allocation products ~~(subject to NRA approval)~~ will be priced relative to CAM Standard Capacity Products.

All references to prices in this document relate to either the reserve price if the capacity is offered by means of an auction, or the capacity prices if offered by means of another Allocation Mechanism. All related charges (shown in section 1.2) will be published in the ~~IUK~~ Charging Statement[2].

[2] ~~"IUK's~~ The "Charging Statement" sets out IUK's charges related to the IUK Access Agreement and IUK Access Code. This is available at www.interconnector.com

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~~2.2 Price for Capacity for use during the period to 1 October 2018~~

~~Capacity for use for the period to 1 October 2018 relates to capacity surrendered by STA shippers or arising under congestion management procedures. This capacity is made available under the IAA and offered under the relevant PRISMA auction.~~

~~The price for Entry and Exit Capacity that becomes available for use in this period will be set by IUK to ensure objective and non-discriminatory treatment across all shippers. STA Shippers have underwritten the investment and operational costs of the Interconnector by committing to ship or pay payments, based on cost related tariffs, for the 20 year term of the STA. Without these long term commitments the infrastructure would not have been built.~~

~~The price paid by STA Shippers under the STA, is based on two elements: the construction cost of the Interconnector pipeline and its Bacton and Zeebrugge terminals, and the operating costs. The base value of the price for IAA Capacity is calculated from the average cost of capacity for STA Shippers derived from IUK's Financial Statement for year ending 30 September 2013, as follows:~~

~~Stated values (page 17 of 2013 statement) –~~

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

~~Therefore, the average cost of capacity in the gas year 2012/2013 (p/(kWh/h)/h)~~
~~= (£142,883,000 + £34,901,000)*100/(365*24*59,731,735) = 0.033977 p/(kWh/h)/h~~

~~An escalation factor is used to calculate the total price for IAA Capacity for subsequent years. This is similar to the way the STA tariff is escalated each Gas Year. For illustration, the price for daily capacity for Gas Year 2014/15 is calculated as follows:~~

- ~~Escalation Factor = ratio based upon the Producer Price Index (PPI) = PPIr/PPIo~~
- ~~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 = average PPI for twelve months ending 30 June 2012 = 106.1083~~
- ~~PPIr for 2014/15 = 108.6583~~
- ~~Escalation to 2014/15 = 108.6583/106.1083 = 1.0240~~

~~TOTAL PRICE FOR CAPACITY FOR GAS YEAR 2014/2015 (p/(kWh/h)/h)~~
~~= 0.033977 * 1.0240~~
~~= 0.034794 p/(kWh/h)/h~~

~~The total price above will be split 50:50 into Entry Capacity Price (0.017397 p/(kWh/h)/h) and Exit Capacity Price (0.017397 p/(kWh/h)/h). If capacity becomes available (principally through surrender~~

~~or LTUIOLI) which is of longer durations e.g. a month, then the price will be set in the relevant auction based on the capacity duration e.g. for monthly capacity it would be p/(kWh/h) per month.~~

~~This Section 2.2 of the Charging Methodology shall cease to have effect on Gas Day 1 October 2018.~~

~~2.27~~2.2 Price for Capacity ~~for use from 1 October 2018 onwards~~

~~2.27.1~~2.2.1 General Principles

The price for capacity sales for Entry and Exit Capacity ~~for use from 1 October 2018~~ will be set by IUK to ensure objective and non-discriminatory treatment across all ~~shippers~~ Shippers taking part in capacity sales.

The price will be fixed at the time of allocation providing price certainty to ~~IAA~~ Shippers. For products to be used in a future year, this fixed price will be subject to annual indexation.

The key factors determining the prices are:

- Competitive forces and the prices of competing and complementary services;
- Operating costs for operating and maintaining the company and its assets;
- Capital expenditures required to maintain the service;
- Projected customer demand for IUK capacity and the forecast volume of both long term and short term sales under a range of market scenarios; and
- A risk premium applied to the yearly standard capacity product reflecting the benefits of certainty regarding the level of the price. The level of the premium will be published in the ~~IUK~~ Charging Statement.

An additional element governing IUK's finances ~~will be~~is a financial control under the Belgian Gas Act. This control ~~will be~~is governed by the Belgian NRA, CREG, and establishes a safeguard against excess profit.

IUK will set prices which are competitive and responsive to market forces. The prices will be attractive to S~~s~~hippers, and will reflect the value of the services.

Whilst ensuring no undue discrimination, the price can differ for different Entry and Exit points, types of capacity, durations of time and capacity periods to reflect the different underlying market and cost conditions.

~~2.27.2~~2.2.2 Auctions on PRISMA

For any given auction, the price paid for Entry Capacity and Exit Capacity will be the reserve price (subject to indexation, if applicable) plus any premium bid at the time of the allocation process.

For ascending clock auctions held on PRISMA, the determination of the large price step shall seek to minimise as far as reasonably possible, the length of the auction process. The determination of the small price step shall seek to minimise, as far as reasonably possible, the level of unsold capacity where the auction closes at a price higher than the reserve price.

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~~2.27.3~~2.2.3 Price for Capacity Products with a duration less than one year

The same principles as outlined in 2.~~3~~2.1 will be used to determine the level of the price multipliers for each Entry and Exit Capacity product less than a year in duration relative to the annual price for firm capacity. This includes, but is not limited to, the multipliers for CAM Standard Capacity Products.

The multipliers for the Quarterly, Monthly, Daily and Within Day CAM Standard Capacity Products published as set out in Table T2 in Annex 1 shall be no higher than the following caps:

Table T1: CAM Standard Capacity Product multiplier caps

Quarterly	1.5
Monthly	3
Daily	6
Within Day	6

~~2.27.4~~2.2.4 Principles for the price structure of any Allocation Mechanism

The main principles for any Allocation Mechanism may include but are not limited to the following:

- A booking incentive ~~on the price~~ may be offered. The booking incentive would be applied to any eligible booking to determine the total payable capacity charge including the incentive. Booking incentives may, for example, be offered to encourage bookings that are longer in duration to support the financial stability of the interconnector, or combination bookings. Any booking incentive will be published in the Charging Statement in advance of the relevant Allocation Mechanism~~for Annual Capacity Products that are longer in duration (e.g. booking incentive of 10% for bookings of 5-7 Gas Years, 15% for bookings of 8-9 Gas Years and 20% for bookings of 10 Gas Years or longer)~~.

- A Capacity Transaction for a Firm Annual Capacity Product for 5 or more successive Gas Years benefits from a "lowest price guarantee" in that the Capacity Charge is the lower of: (i) the sum of the price and the premium; and (ii) the lowest price for which such Firm Annual Capacity Product is allocated in a CAM auction via PRISMA auction for that Gas Year or if there is no allocation for that Gas Year, the lowest IUK price for that Firm Annual Capacity Product for that Gas Year.

2.~~4~~3 Indexation

Entry or Exit capacity prices to apply in a future year for all capacity that is sold under any Allocation Mechanism will be subject to annual indexation as provided for in the IAC and outlined in the Charging Statement.

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3 Buy-back Prices

Where IUK has sold Entry or Exit Capacity via an oversubscription mechanism, if, at any time, aggregate nominations exceed, or are predicted to exceed, the physical capability of the system, IUK will initiate the Buy-back process in accordance with IAC Section C. IUK will determine the quantity and category of capacity that it needs to buy back from ~~shippers~~ Shippers to reduce the aggregate nominations to within the physical capability of the system.

3.1 Maximum Buy-back Price

All ~~shippers~~ Shippers will be informed, via IUK's ~~Bulletin Board~~website and the IUK Information System, when IUK needs to buy back capacity. IUK shippers will be invited to sell capacity back to IUK in a pay-as-bid auction known as Voluntary Buy-back ("VBB").

Under a VBB auction, IUK will accept offers from IUK Shippers subject to paying no more than the Maximum Buy-back Price. This is the price that IUK will pay for Entry and Exit Capacity from ~~STA Shippers to the period up to 1 October 2018 and/or~~ the aggregate of offered Entry Capacity and Exit Capacity from ~~IAA~~ Shippers. This price will be calculated on the relevant Gas Day as the weighted average price paid for that day's Entry Capacity and Exit Capacity plus a Buy-back premium. The premium is set to strike a reasonable risk-reward balance and limit the exposure of IUK (see ~~IUK's~~ the Charging Statement for details of the level of the Buy-back premium).

3.2 Forced Buy-back Price

Forced Buy-back will be initiated on ~~IAA~~ Shippers, if:

- there is unfulfilled Buy-back requirement following VBB, due to insufficient capacity being offered to satisfy the Buy-back requirement at prices up to the Maximum Buy-back Price, or
- the Buy-back requirement occurs when the net OS revenue account has reached its maximum deficit (see next section), or
- the Buy-back requirement occurs after 21:00 (UKT) / 22:00 (CET) within day as there is insufficient time to run a VBB auction and implement the resulting renominations.

When IUK initiates Forced Buy-back, ~~IAA~~ Shippers who bought Daily or Within Day capacity will have such capacity pro-rated downwards to reduce aggregate nominations to within the physical capability of the IUK system and IUK will pay a~~n~~ ~~IAA~~ Shipper for the reduction in Entry Capacity and Exit Capacity (taking into account any capacity already offered and accepted in the VBB auction) 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.

This Forced Buy-Back premium recognises that capacity has had to be forcibly bought-back from ~~IAA~~ Shippers, but is low enough to ensure that there is an incentive for ~~IAA~~ Shippers to bid in the VBB auction (rather than wait for Forced Buy-back).

3.3 Net OS Revenue Account

IUK will keep track of an account ("Net OS Revenue Account") which will be equal to the revenue from OS Capacity sales, on a cumulative basis over the Gas Year, minus any payments made for Buy-back

during that time. This account will be allowed to go negative (if Buy-back costs exceed sales revenue) up to a limit set out in ~~IUK's~~ the Charging Statement. At this level, if further Buy-back is required, IUK will implement the Forced Buy-back process.

It is thought to be very unlikely that the limit will be reached however, setting this limit of exposure enables IUK to know in advance the risk to which they would be exposed for Buy-back. In addition, there is an exposure to the 5% premium to be paid in Forced Buy-back to be taken into account in the event that this scenario is reached.

4 Initial Registration Fee

An Initial Registration Fee is a one off charge by IUK on any new ~~IAA~~ Shippers signing an IAA. This is to cover IUK's legal, administrative and training costs. ~~This fee is not payable by an existing STA Shipper or sub-lessee of an STA Shipper up to 1 October 2018 who is already receiving transportation services from IUK and who then signs up to the IAA service.~~

The Initial Registration Fee is set out in ~~IUK's~~ the Charging Statement.

5 Monthly Administration Fee

A Monthly Administration Fee is payable by each ~~IAA~~ Shipper under an IAA. This covers IUK's on-going costs supporting contract administration, principally a~~n~~ ~~IAA~~ Shipper's access to IUK's Information System (e.g. user accounts, requests for help, interface issues, e-learning modules, etc.), on-going credit review and invoicing.

The Monthly Administration Fee is set out in ~~IUK's~~the Charging Statement.

6 Balancing Charges

A~~n IAA~~ Shipper has the obligation to ensure that its intended inputs and intended outputs of Natural Gas are balanced each hour of the Gas Day. IUK operates an operational balancing account at Bacton and Zeebrugge under which allocations to a~~n~~ ~~IAA~~ Shipper will equal its relevant nominations hence ~~IAA~~ Shippers will be in balance. In exceptional circumstances (e.g. an operational balance account is not being applied), where there is a difference between a~~n~~ ~~IAA~~ Shipper's allocated Inputs and Outputs such differences will be dealt with as per Section E and F of the IAC.

7 Commodity Charges

IUK procures natural gas and electricity for the operation of the IUK Transportation System, which includes:

- Fuel Gas for the operation of compressors and boilers at Bacton and heaters at Zeebrugge;
- HV electricity for the operation of the compressors at Zeebrugge

- Gas to maintain the pipeline inventory within acceptable operational limits, allowing for shrinkage.

IUK will estimate the cost of gas and electricity to transport a unit of gas through the Transportation System and convert these into a suitable commodity charge by applying a Commodity Charge to each ~~IAA~~ Shipper's Entry Allocations. The Commodity Charge will be defined for each Entry point.

The Commodity Charges will be set out in ~~IUK's~~ the Charging Statement and the IUK website.

8 Annual Distribution of Net OS Revenues

At the end of the Gas Year, if the Net OS Revenue Account is negative, then IUK will bear 100% of this loss and return the balance to zero. At the end of the Gas Year, if the Net OS Revenue Account is positive, then this amount will be paid out so that the balance returns to zero. 25% will be paid to IUK and 75% (the Net Revenue Share) will be distributed to all ~~shippers~~ Shippers ~~(STA Shippers, and Sub-Lessees under the STA to the period up to 1 October 2018, and IAA Shippers)~~based on their allocated flow over the year.

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ANNEX 1: IUK pricing publication timetable

Prices will be published on IUK's website (and other relevant platforms) in advance of the relevant Allocation Mechanism. IUK will publish prices as follows:

A.1 CAM Standard Capacity Products

Table T2: CAM Standard Capacity Product pricing information to be published 30 days in advance of the Annual CAM auction

PUBLICATION	ANNUAL	QUARTERLY	MONTHLY	DAILY	WITHIN DAY
At least 30 days before the Annual CAM auction	Actual	Actual	Binding multiplier cap for the subsequent gas year	Binding multiplier cap for the subsequent gas year	Binding multiplier cap for the subsequent gas year

The actual price for the Monthly, Daily and Within Day CAM Standard Capacity Products will be published as follows:

Table T3: Timing of the publication of the actual prices for Monthly, Daily and Within Day CAM Standard Capacity Products in advance of the relevant CAM auction

PUBLICATION	MONTHLY	DAILY	WITHIN DAY
Prices published in advance of the relevant CAM auction	2 weeks	6 hours	1 hour

A.2 Implicit Allocation

The binding cap set out in Table T2 for CAM Standard Capacity Products will also apply to the equivalent duration Implicit Allocation products for capacity sales transacted in the same gas year.

Non-standard Implicit Allocation product prices will fit within the binding caps of the CAM Standard Capacity Products, using a composite approach based on shorter duration products where applicable.

The price of Implicit Allocation products longer than one month in duration will be published at least a week in advance of the relevant sales offering.

The price of Implicit Allocation products one month in duration or less will be published at least a day in advance of the relevant sales offering.