

All Stakeholders

4 October 2018

Dear Stakeholder,

Consultation on IUK's Access Terms

Interconnector (UK) Limited ("IUK") would like to hear stakeholders' views on its proposed changes to the IUK Access Terms. This consultation is being run in parallel with a consultation on proposed changes to IUK's Charging Methodology¹.

1. Introduction

IUK's Access Terms include:

- The IUK Access Agreement ("IAA") contains the general terms and conditions to access Interconnector capacity. By signing this, parties agree to adhere to the IUK Access Code.
- The IUK Access Code ("IAC") details the access rules for IUK capacity acquired under the IAA.
- The System User Agreement ("SUA") contains the terms and conditions for the System User to access and use the IUK information and management system or its successor system.
- The IAA Summary ("IAAS") describes the transportation model and related services offered by IUK under the IAA. Whilst this document does not give rise to any contractual relationship between IUK and any other party for the provision of services by IUK, it is reviewed and approved by IUK's NRAs.

2. Background

A requirement of the governing rules is that IUK reviews its Access Terms at least once each calendar year. The proposed changes identified as part of this annual review are outlined in Section 3 of this letter. IUK's Access Terms are approved by both Ofgem (the UK National Regulatory Authority ("NRA")) and CREG (the Belgian NRA).

3. Summary of Proposed Amendments to IUK's Access Terms

Simplifications

Since 2015, the IAA and the IAC have been running in parallel with the Standard Transportation Agreement ("STA"). The STA was the contract under which all of IUK's technical capacity was sold for a twenty-year period expiring 30 September 2018. After this date, the only contract through which capacity can be accessed is the IAA. With the expiry of the STA, IUK has removed the initial and enduring period provisions from the IAA and the IAC. These were originally included to provide a distinction between the regime applying until 1 October 2018, and from 1 October 2018 onwards.

¹ For further details of that consultation please see: <http://www.interconnector.com/about-us/our-consultations/latest-consultation/>

IUK's SUA, containing the terms and conditions for accessing IUK's information and management system, was also introduced in 2015 to replace the ISIS User Agreement ("IUA") and all IUK Shippers, whether signatories of the STA or IAA contract, are required to have agreed to the conditions in the SUA. The SUA was previously kept as a standalone document, rather than an annex to the IAC. IUK is proposing that, going forward, the terms and conditions from the SUA are incorporated into a new section of the IAC, Section J IUK Information System, in order to provide IUK Shippers with a more streamlined contractual arrangement. IUK has also updated the terms, which were previously part of the SUA, to take account of several General Data Protection Regulation ("GDPR") requirements.

Implicit Allocation Mechanism

Incorporating the IA Guidance Document into the IAC

A condition of CREG's approval to Issue 5 of the IAA and the IAC was that IUK incorporates the Implicit Allocation Guidance document into the IAC. This document outlines the standard capacity products (Annual, 6 monthly, Quarterly, Monthly and Daily) that may be offered through IUK's Implicit Allocation Mechanism ("IAM"). Through IAM, IUK capacity is allocated at the same time as a corresponding quantity of natural gas. IUK has transferred the contractual language from this document into Annex B-3 of the IAC, and subsequently removed references to the IA Guidance Document within the IAC and also the IAA Summary.

Proposal to increase the amount of capacity offered through Implicit Allocation

IUK is proposing that the amount of capacity that may be offered through Implicit Allocation is increased from 50% to 75% of IUK's technical capacity in each flow direction. IUK will continue to utilise the PRISMA auctions, where there have been several IUK capacity bookings for Gas Year 2018-19, for all unsold capacity and for the short term capacity held back through the Capacity Allocation Mechanism Network Code ("CAM NC"). IAM will continue to be suspended in the run up to or during the PRISMA auction of the equivalent capacity.

When IUK consulted on the introduction of IAM in 2017, the concept, despite being fully within the boundaries of CAM NC, was still relatively undeveloped within the gas market and there were limited examples of how Implicit Allocation would operate. The 50% limit was introduced as a precautionary measure due to the perceived complexity of this new mechanism.

Since launching IAM in April 2018 however, shipper booking behaviour has shown that there is significant demand and real value added by having more opportunities to book IUK capacity than would be available solely through PRISMA. This ability to build up a varied IUK capacity portfolio, across multiple trading sessions when the market signals are there, will lead to more efficient utilisation of the capacity.

Furthermore, IAM has enabled shippers to purchase IUK capacity much further in advance than would have been possible through PRISMA alone. This has facilitated cross border trade by allowing market participants to lock in a significant proportion of winter supplies to the UK at an earlier date, resulting in an improved security of supply situation. For example, the 50% limit for Q1 19 (Jan-Mar) has been reached. By increasing the amount of capacity offered earlier in the gas year, the market will benefit from early insights into demand levels. In turn, shippers will be better positioned to make optimisation decisions which will ultimately reduce the overall cost for end consumers.

The 50% restriction is now imposing a constraint on Shippers' ability to use Implicit Allocation to optimise their portfolio and is limiting the opportunity for additional Shippers who have shown interest in Q1 19 from acquiring capacity via IAM. IUK is therefore proposing to increase the amount of capacity that can be offered via IAM from 50% to 75% of IUK's technical capacity in each flow direction.

Further Amendments

IUK has amended the Credit Support requirements provided in Clause 3.1 of the IAA to cover short term capacity purchases and reduce IUK's credit exposure for capacity bookings made well in advance of the utilisation date.

IUK has also amended the Force Majeure provisions in Appendix A of the IAA to reduce the duration for which a Shipper is liable to pay Capacity Charges in the event of continued Force Majeure. This period has been reduced from 24 months to 3 months from the occurrence of a Force Majeure event. Alongside this, currently where a Force Majeure event has continued for 24 consecutive months, both the Shipper and IUK have the right to terminate the Agreement. IUK is proposing to reduce this right to terminate period to 12 consecutive months.

4. Your Feedback

We would appreciate comments from all interested parties. Please send your response to consultation@interconnector.com by 17:30 UKT on 8 November 2018.

Additionally, if any party would like a more detailed explanation of the proposed changes, we would be happy to arrange a bilateral meeting to discuss this.

Following this market consultation, IUK will review the responses received and will aim to submit its proposals on all areas outlined above to Ofgem and CREG for approval by December 2018. Subject to NRA approval the amended IUK Access Terms (IAA, IAC and IAA Summary) will be effective from the day of the NRA decision.

Please ensure that a "read receipt" is requested to confirm that your response has been received by IUK. Please note that any responses not marked confidential may be published on IUK's website. Confidential responses may be shared with Ofgem and CREG, at their request.

If you wish to clarify any aspect in relation to this letter, or have any questions, please contact Sarah Cooper on +44 20 3621 7856 or sarah.cooper@interconnector.com.

We look forward to hearing from you.

Yours faithfully

SARAH COOPER
Commercial Manager