

All Stakeholders

23 May 2019

Dear Stakeholder,

Consultation on IUK's Access Terms (Issue 7) and IUK's Charging Methodology

Interconnector (UK) Limited (“IUK”) would like to hear stakeholders’ views on its proposed changes to the IUK Access Terms and to the IUK Charging Methodology.

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 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 approved by IUK’s NRAs.

IUK’s Charging Methodology (“CM”) sets out the methodology that IUK applies to charging for transportation services provided under the IAA. The CM takes into account and recognises that IUK, given its specific circumstances, needs to be able to set competitive, market based tariffs which reflect both market conditions and allow for cost recovery.

2. Background

A requirement of the governing rules is that IUK reviews its Access Terms and Charging Methodology at least once each calendar year. Article 15/5bis, Section 15 of the Belgium Gas Act and Condition 10 of IUK’s GB interconnector licence require IUK to prepare and submit for NRA approval, a Charging Methodology for access to the interconnector.

IUK’s Access Terms and Charging Methodology are approved by both Ofgem (the UK National Regulatory Authority (“NRA”)) and CREG (the Belgian NRA). IUK’s current Access Terms and Charging Methodology were approved by both NRAs following a consultation in 2018¹.

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

3.1 Transition of IUK’s Gas Management System

IUK is transitioning its current gas management system, ISIS (IUK Shipper Information System), to the Gsmart Gas Management system. GSmart is widely recognised within the market and is being utilised by several other Transmission System Operators (“TSOs”) such as Fluxys Belgium, IUK’s adjacent TSO.

¹ Available on IUK’s website: <https://www.interconnector.com/about-us/our-consultations/archived-consultations/>

As well as providing cost savings for IUK, the move should allow Shippers to better align their inhouse processes, as well as access additional functionality such as the Electronic Data Platform (“EDP”).

A number of minor changes are proposed to the IAC to reflect the slightly different commercial processes within GSmart. In addition, once the transition is complete (expected from November 2019), like many other TSOs, IUK will use the PRISMA platform as the only vehicle for secondary capacity transactions, surrender of capacity and the capacity conversion service.

3.2 Introduction of a new Capacity Class

Background

IUK uses electric driven compressors at its Zeebrugge Terminal (“IZT”), meaning that IUK is exposed to changes in Belgian electricity prices. IUK’s current electricity supplier, who was appointed following a competitive market tender, has the right to call a Demand Response Event (“DR Event”) in times of market stress. Due to the very tight power supply situation in Belgium during Winter 2018/19, the risk of IUK’s electricity supplier calling a DR Event increased.² Despite this being an external risk, outside the risk perimeter of IUK, mitigating action was taken in November 2018, such that 30% of IUK’s technical capacity for Q4 and Q1 of each calendar year is now solely offered as interruptible capacity in the Daily CAM NC auctions on PRISMA. The remainder is offered as firm capacity.

Under the current arrangement, the holders of the interruptible capacity may choose to adjust their nominations during all hours of the gas day or pay the additional costs associated with flowing through a DR Event.³ Since no such demand response event materialised during Winter 2018/19, and the probability of a DR event in the future is deemed to be low, IUK is proposing a more efficient solution to deal with the potential risk of a DR Event that maximises the volume of capacity that IUK may make available.

Proposed Improvements

IUK will continue to offer 70% of its technical capacity, for products which cover or fall within Q4 and Q1 (BE to UK direction), as firm. A maximum of 30% of the technical capacity will be offered as a conditional firm (“CF”) product on PRISMA. Of this 30%, 75% will be offered via implicit allocation (“IAM”).

If IUK’s electricity provider calls a DR Event⁴, holders of the CF capacity will have the choice to either pay the exceptional charges associated with flowing during a DR Event or reduce their gas flow nominations for the affected gas day. During all periods, the CF capacity is treated as firm by IUK. The difference between the firm and the CF capacity is therefore limited to the charges levied.

IUK believes this proposal is more transparent than the current offering of interruptible capacity, which could also be interrupted for other, operational issues that may not be visible to the Shipper at the moment of booking. Marketing this capacity as CF provides Shippers with an improved level of firmness as well as a more cost effective option than the current arrangement. It also means that the capacity can be purchased further in advance, on more occasions and for varied product durations via both PRISMA and IAM.⁵ This should help improve the security of supply picture for UK imports as

² http://www.elia.be/~media/files/Elia/PressReleases/2018/20181002_Press-release-Winter-outlook-2018-2019.pdf

³ IUK can reduce its electrical consumption to 0MW during the impacted hours, or flow through and pay the negative imbalance price (up to a maximum of 13,500EUR/MWh (electrical), with actual values only available after the period.

⁴ Notified before 17:00 CET D-1

⁵ As the volume is pre-defined, CF capacity will be offered in a parallel auction to the Firm capacity auctions on PRISMA. Via IAM, the Shipper would specify the Class of capacity at the time of allocation.

Shippers can now secure additional volumes of UK import capacity further in advance. It also ensures that more IUK capacity will be made available for the PRISMA auctions.

Proposed Tariff Structure

As IUK perceives that the risk of a DR event occurring is low, the aim of this proposal is to offer a less disruptive and more pragmatic solution compared to current practice.

IUK is proposing that the CF capacity will be offered at the same tariff as the corresponding firm product; if a DR event occurs, the holder of the CF capacity would be reimbursed a percentage of the Capacity Charge against all of their registered CF capacity for the affected Gas Day. The terms and conditions as well as the level of reimbursement will be published in advance of the relevant offering in IUK's Charging Statement.

This allows for equal treatment of Shippers as for the periods where the condition is not met, the holders of the CF capacity are receiving the same service as holders of firm capacity. Discounting this product for the full booking period is not reflective of the short lived nature of a DR event and would lead to distortion across IUK's capacity holders.

3.3 Implicit Allocation Mechanism

Period for Offering Capacity via Implicit Allocation

IUK is proposing to extend the period in which the current products can be offered via the Implicit Allocation Mechanism, as shown in Table 1.

Table 1: Proposed Amendments to the lead times of capacity products offered via IAM

Products	Current Offering	Proposal for Issue 7 of the IAA
Annual	5 years	15 Gas Years
Seasonal (6 months)	6 season (3 years)	15 Years
Quarterly	4 quarters (1 year)	15 Years
Monthly	3 months	8 months
Daily	D+2 (<i>not currently offered</i>)	No change
Balance of Month	D+2 (<i>aligned with commodity offering</i>)	No change

The Monthly product offering period has been extended, but to a lesser degree than the Annual, Seasonal and Quarterly contracts as the liquidity on these products does not develop until closer to delivery. Shippers have so far found value in booking capacity further in advance of the utilisation; by extending the seasonal and quarterly offerings Shippers will have the option to secure their summer UK export route and winter UK import capacity earlier, which in turn will improve the security of supply situation of the UK and North West Europe.

Shippers would have the option to book corresponding IUK capacity at the time of committing to a longer term supply contract, which is more efficient than waiting for the Annual or Quarterly auctions on PRISMA to secure a matching capacity booking.

Inclusion of sell side commodity transactions

IUK's IAM is currently designed such that the Shipper may only purchase capacity if they are buying a matching quantity of natural gas. IUK is proposing to extend the offering to enable a Shipper who is selling natural gas to buy a matching quantity of capacity. The Capacity Allocation Mechanism Network Code ("**CAM NC**") specifies simultaneous allocation; a condition which would continue to be fulfilled under this proposal.

Currently, Shippers who produce gas, or have a long position within their portfolio, may be disincentivised to buy additional gas which they don't need and are therefore restricted to purchasing IUK capacity via PRISMA. This means they cannot benefit from being able to purchase capacity outside of the ENTSOG calendar and are limited to the standard bundled capacity products.

As an example, by lifting this constraint, Shippers can efficiently book UK export capacity for the sale of their upstream production gas, which will promote cross border flows and marketing of gas on the North West European hubs. UK security of supply may also be improved as Shippers delivering LNG cargoes into continental terminals would also have easier access to IUK UK import capacity.

4. Brexit

IUK has been engaging with the UK and Belgian Authorities to discuss the potential issues that could arise in the event of Brexit. IUK has also conducted due diligence to ensure that there will be no major disruption or operational issues in the event of “no-deal Brexit” or “hard Brexit”. IUK has discussed and continues to discuss with its Shippers key issues relating to Brexit. Regarding IUK's Access Rules and its Interconnection Agreements with its adjacent TSOs, IUK has identified some references to European Law which may need to be amended in case of “no deal” or “hard Brexit” scenario. IUK intends to review and consult the market on any changes needed once there is clarity on the overall legal and regulatory framework after Brexit, taking into account the possibility of a transition period.

5. Summary of Proposed Amendments to the Charging Methodology

Section 1.2 of the CM, concerning the format in which unit prices and charges are expressed, has been amended to allow IUK to offer capacity as pence per kWh/h per day in addition to pence per kWh/h per hour. This is in line with the requirements of the Tariff Network Code (“**TAR NC**”) and Article 10 of the CAM NC. This is in response to some Shippers suggesting offering capacity as pence per kWh/h per day would better align with gas trades and thus further facilitate the offer of products via implicit allocation.

The initial registration and monthly administration fee are non-transmission services. This has been made clear by adding a footnote under Section 4 and 5 of the CM stating this.

The IUK publication timetable in Annex 1 of the CM has been amended to now include CF products. It obliges IUK to publish prices for the CF products at the same time as the equivalent duration standard firm product if the CF product is offered via the PRISMA auctions. Likewise it commits IUK to publish prices at the same time as the equivalent duration product if the capacity is offered via implicit allocation.

6. Your Feedback

We would appreciate comments from all interested parties. Please send your response to consultation@interconnector.com by 17:30 UKT on 20 June 2019.

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 in July 2019. Subject to NRA approval the amended IUK Access Terms and IUK Charging Methodology 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 (0) 20 3621 7856 or sarah.cooper@interconnector.com or Pavanjit Dhesi on +44 (0) 78 666 20 832 or pavanjit.dhesi@interconnector.com

We look forward to hearing from you.

Yours faithfully

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