

Merging the BeLux Market Area and Interconnector



May 2022
Stakeholder Consultation



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1. Introduction

Fluxys Belgium and Interconnector Limited (“Interconnector” or “INT”) would like to hear stakeholder’s views on the proposed integration of the BeLux Market Area and Interconnector. The integration will simplify the trading arrangements for gas transportation between the Continent and the GB gas market by removing the IZT Interconnection Point (“IP”) which currently connects Interconnector to the Fluxys Belgium System. The BeLux Gas Market will be simplified through the merger of the existing ZTPP and ZTPN trading points into a single hub, the ZTP, from which Shippers may directly access the UK’s NBP market. Creating a more accessible trading model has the potential to enhance liquidity and significantly reduce complexity.

This consultation document outlines how the Interconnector and the BeLux Market Areas will be integrated to create a new, Combined Market Area (“CMA”) and the benefits that the resulting simplifications will have for the setup in the Zeebrugge area as well as the trading arrangements between the UK and the BeLux Market Area.

The consultation timeline is given in Section 4 of this document, which outlines the regulatory steps required to meet the targeted implementation date of 1 December 2022.

1.1. Fluxys Belgium and Interconnector

Fluxys Belgium operates the gas transmission grid and storage infrastructure in Belgium, as well as the Zeebrugge LNG terminal through its subsidiary Fluxys LNG. The Belgian gas network is the crossroads for international gas flows in North Western Europe.

Interconnector owns and operates the gas pipeline which links the UK and the BeLux Market Areas. Interconnector offers a fully flexible commercial and physical bi-directional service between the UK and mainland Europe, meaning that it provides important security of supply benefits across the region.

Fluxys Belgium and Interconnector Limited operate as two independent Transmission System Operators (“TSOs”) and each markets their transmission services using their respective Access Rules and Charging Methodology. The proposed changes to these documents will therefore be addressed separately and this is outlined in Section 5 of this report.

2. Proposed Changes

The current configuration of the Belux-H market area¹ and the Interconnector is shown in Figure 1:

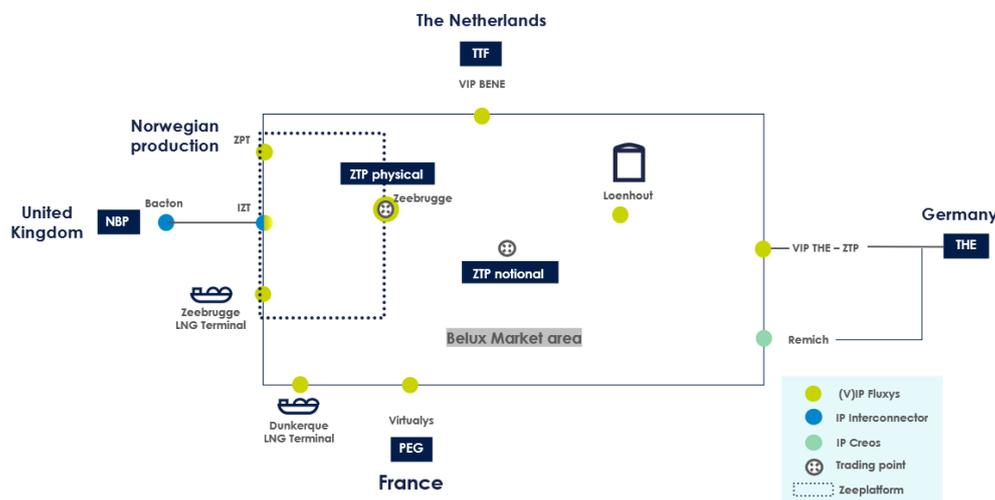


Figure 1: Current Market Configuration of the Belux Market Area and Interconnector

There are three key changes being proposed as part of this consultation:

1. Creation of a Single Trading Point for the Combined Market Area

In the current market configuration, Fluxys Belgium offers access to two trading points; the ZTP physical and ZTP notional hubs. Over the past few years the liquidity in the Belgian market has declined as the market conditions have evolved. The existence of two trading points also means that the market liquidity is fragmented and that creates an extra layer of complexity which is absent from the surrounding market areas.

One single virtual Trading Point promoting greater liquidity

Fluxys Belgium proposes to merge the ZTP physical and ZTP notional trading points in order to create one single trading point for the Combined Market Area; the ZTP. This will greatly simplify the trading arrangements and concentrate the trading activity to one single hub, in Euros, which in turn has the potential to increase liquidity.

2. Removing Complexity within the Zeebrugge Area

The second change is the simplification of the Zeebrugge Area. Fluxys Belgium currently provide the Zeeplatform services which enable Shippers to flow unlimited volumes of natural gas between 2 or more selected entry or exit points within the Zeebrugge area. Whilst this does provide a degree of flexibility for the market, it also carries additional complexities linked to the booking processes and fixed costs associated with a subscription service. Feedback has been received that these can be limiting factors for certain market participants and/or for parties focused on shorter term opportunities. The Zeeplatform service will therefore be removed and the Zeebrugge IP, which currently joins the ZTP physical with the ZTP notional trading point will be merged with the IZI IP.

Reduced Complexity, Enhanced Liquidity

¹ Corresponding to the physical H-calorific subgrid of the Fluxys Belgium Transmission System

These changes will reduce the complexity for Shippers when accessing the new CMA via the Interconnector, LNG terminals or upstream delivery points. The concentration of the physical gas deliveries into one central trading hub should increase throughput which again has the potential to improve liquidity and market efficiency in the region.

3. Removing the IZT Interconnection Point

In the current market configuration, Interconnector has two Interconnection points, one at Bacton (Interconnector Bacton Terminal IP ("IBT IP" or "Bacton IP")) and one at Zeebrugge (Interconnector Zeebrugge Terminal IP ("IZT IP")). This means that Shippers are currently required to make two separate bookings as well as two separate nominations at each point in order to have a complete route between the UK and the BeLux Market Area.

Direct access from the NBP to ZTP

This consultation is proposing that the IZT IP will be removed as a bookable point, leaving only the Bacton IP as the single connection point between the GB market area and the CMA. This would greatly simplify the setup for Shippers as only one capacity booking and one nomination will be required at the Bacton IP to transit between the NBP and ZTP.

Clear, efficient and risk free capacity booking between INT and Fluxys Belgium systems

The removal of the IZT IP removes the risk of Shippers acquiring capacity at one side of the Interconnector pipeline but not the other when bidding via the CAM NC auctions on PRISMA. This significantly improves the attractiveness of making short term booking decisions and removes the operational risks associated with mismatched capacity and balancing positions.

These changes vastly enhance the simplicity of the BeLux Market Area as well as the trading arrangements between the UK and continental markets. The final configuration of the CMA is shown in Figure 2:

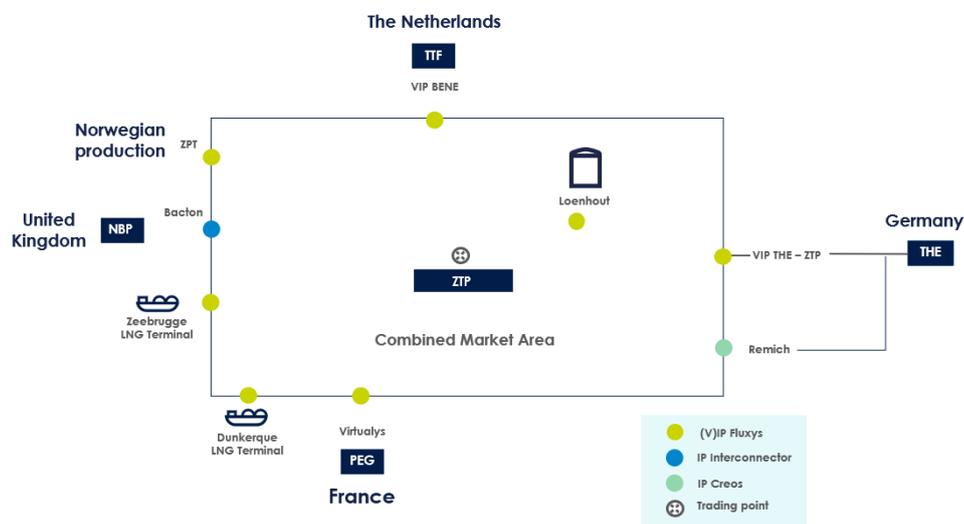


Figure 2: Configuration of the Future Combined Market Area

3. Key features of the new model

The three proposals discussed in Section 2 will provide simplicity and efficiency enhancements to the cross border flows between the UK and continental Europe as well as the potential for improved trading across the two markets, all of which is in line with ACER's European Gas Target Model². This section elaborates on the envisaged implementation of these enhancements and the associated benefits.

3.1 Offer of Capacity to the Market

The transportation capacity between the UK and Belgium is currently offered by Interconnector and Fluxys Belgium separately, in line with the rules outlined in each TSO's Access Rules. At the IZT IP, Interconnector capacity is offered bundled with Fluxys Belgium capacity either using the Zeeplatform or the Fluxys Belgium IZT IP whilst at the Bacton IP, Interconnector offers its capacity bundled with National Grid Gas ("NGG"). This capacity is marketed via the CAM NC auctions on PRISMA and Interconnector also markets unbundled capacity through its Implicit Allocation Mechanism ("IAM").

One booking to transit between NBP and ZTP

Under the new model, the removal of the IZT IP means that Shippers would only make one capacity booking at the Bacton IP to transit between the NBP and ZTP. The offer of capacity at the Bacton IP will be governed by Interconnector. The booking of Bacton Entry or Bacton Exit capacity will give access rights to enter or exit the CMA across the Interconnector and Fluxys Belgium systems. Interconnector's technical capacity remains unchanged.

The capacity products marketed by Interconnector will continue to be offered either unbundled or bundled with NGG capacity at the Bacton IP. The same range of product durations will be available via the CAM NC auctions on PRISMA as well as via Interconnector's Implicit Allocation Mechanism.

More efficient cross border flows

Under the current market configuration, INT's IAM allows Shippers to purchase standard capacity products much further in advance of the utilisation date than the CAM NC auctions on PRISMA as well as purchase a series of non-standard products. This flexibility means that INT's Shippers can better optimise their portfolios and purchase capacity products which better match their utilisation of the pipeline. This leads to a more efficient booking process and contributes to improved security of supply. With the removal of IZT and the incorporation of the Fluxys Belgium capacity rights into the Interconnector capacity offering, these benefits are automatically extended and should further contribute to increasing the efficiency of cross border gas flows.

On the Fluxys Belgium Transmission System the use of Wheelings and Operational Capacity Usage Commitments ("OCUCs") will also be retained. Shippers who book capacity at certain Entry Points as well as certain Exit Points within the CMA may convert their bookings into an OCUC to receive an incentivised tariff on the basis that they transport their gas directly in and out of the CMA without accessing market based balancing services. Under the new model, such OCUCs or Wheelings can be created in combination with Interconnector capacity at the Bacton IP. Figure 3 shows the planned possibilities for these OCUC and Wheeling services.

² <https://documents.acer.europa.eu/en/Gas/Gas-Target-Model>

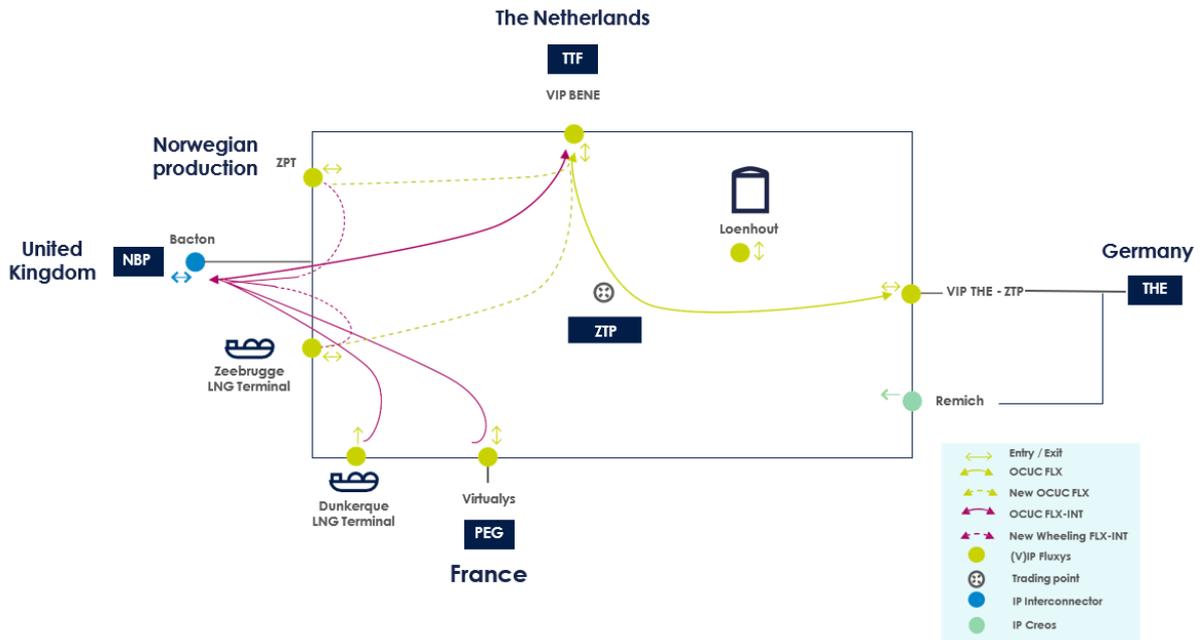


Figure 3: Fixed route options through the Combined Market Area

3.2 Capacity and Commodity Charges

Under the proposed model, as Shippers will only be required to book capacity at the Bacton IP to transit to/from the CMA, there will only be one capacity tariff and one commodity charge associated with that booking. These charges will be published and invoiced by Interconnector.

One capacity tariff to/from the CMA

The Interconnector and Fluxys Belgium capacity tariff for the IZT IP will be reallocated in full towards the Bacton IP and merged into one tariff. The tariff for the Fluxys Belgium capacity segment will be the current published tariff as per the existing Fluxys Belgium Charging Methodology.

In regard to OCUCs and Wheeling products (as described above), the capacity tariff associated with such linked products will be reflected accordingly by INT at the Bacton IP. Interconnector will continue to operate an independent Charging Methodology, under which it will publish its capacity tariffs via a Charging Statement.

In order to ensure better alignment across the CMA, Interconnector will market the capacity products in Euros rather than Pounds Sterling. Interconnector would therefore publish and invoice the capacity tariff for all new bookings in Euro cent/(kWh/h)/h.

One single, aligned Commodity Charge

For the commodity charge, the existing formulae of Fluxys Belgium and Interconnector will be combined in order to create a single applicable commodity charge for all realised allocations on the Interconnector pipeline going into/out of the CMA. In order to provide a simpler setup for Shippers, Interconnector will publish and invoice the Commodity Charge in a Euro cent/kWh denomination.

A further change is that the Interconnector commodity charge formulae currently includes a daily indexation against the NBP gas price; going forward, this will be switched to a ZTP

indexation to align with the Fluxys Belgium formula and ensure that the commodity charge can be easily hedged against.

The move to one capacity and one commodity charge will simplify the booking and analysis process for capacity linking the NBP and ZTP markets. The consolidation of the charges into a single invoice from Interconnector should also reduce complexity and lower the administrative processes required.

3.2.1 Treatment of Existing Capacity Bookings

Fluxys Belgium and Interconnector both have existing, long term Transportation bookings in place which will be transitioned across into the new market model ("Existing Capacity Bookings"). For Interconnector, all existing capacity bookings at the IZT IP will be transferred in full to the Bacton IP. For Fluxys Belgium, any existing Transportation contracts which contain the Zeebrugge IP or IZT IP will be maintained and references to Zeebrugge IP will be considered as reference to IZT IP. Fluxys Belgium will organise a Subscription Window during which a reallocation of some contracts can be asked under the conditions as set forth in the Fluxys Belgium Access Code for Transmission.

3.2.2 Treatment of Capacity Bookings made ahead of Implementing the New Model

Both Fluxys Belgium and Interconnector can currently continue to offer capacity for use post 1 December 2022. A series of Transition measures have been developed to manage capacity bookings made ahead of any NRA approval on this consultation. Below are examples of how different capacity bookings will be treated:

a) New Interconnector and Fluxys Belgium Bundled Capacity

Where Shippers contract bundled Interconnector and Fluxys Belgium capacity for use post 1 December 2022 (e.g. in the July CAM NC Annual Auction or the August CAM NC Quarterly Auction), the capacity charges will remain separate and the respective capacities will continue to be invoiced by each TSO.

It is the aim of both TSOs that the capacity offered in the November CAM NC Quarterly and Monthly auctions will be under the new CMA rules, with capacity only being offered at the Bacton IP. This is subject to the NRA approval.

b) Unbundled Interconnector Capacity purchased without the corresponding Fluxys Belgium Capacity (incl. Existing Capacity Bookings)

Interconnector can currently market its capacity via the IAM for the next 15 Gas Years as Annual, Seasonal or Quarterly capacity products and has already seen capacity transactions take place which extend past the proposed implementation date of the CMA.

These bookings are unbundled and contracted either via INT's 2015 Subscription Process or via the IAM. In order to access the CMA, Shippers would still need to acquire capacity rights to flow on the Fluxys Belgium transmission system. Therefore, the proposed solution is that the nomination and subsequent allocation at the Bacton IP against such capacity bookings will be carried forward to the Zeebrugge Connection Point as an automatic booking of the necessary capacity rights to enter/exit the Fluxys Belgium System. Shippers will therefore be allocated the required capacity on a 'pay per use' basis, using the allocation for such Gas Day at the Bacton IP as basis for the calculation.

This provides a simple solution for Shippers and requires no further capacity booking to enable them to utilise the existing bookings. This regime would only apply for existing bookings until their expiry.

c) Unbundled Fluxys Belgium Capacity without the corresponding Interconnector Capacity (incl. Existing Capacity Bookings)

Fluxys Belgium has existing long term capacity contracts which will be linked to the Zeebrugge Connection Point (non-bookable point) which are not currently bundled with Interconnector capacity. Under the new model, the capacity rights marketed by Interconnector at the Bacton IP will always include the full access to the CMA, i.e. across both INT and Fluxys Belgium's systems. Therefore Shippers wishing to utilise their existing Fluxys Belgium contracts in parallel with flows to/from the NBP would be required to 'double book' the Fluxys Belgium capacity. In order to resolve this, Shippers can book new Interconnector capacity and receive a partial rebate on the newly acquired Fluxys Belgium capacity rights. This ensures that the utilisation of the existing contracts remains cost neutral, as the price paid will be the tariff associated with the existing booking.

3.2.3 Currency of Existing Interconnector Capacity Bookings

Any Interconnector Capacity Transactions for periods post 1 December 2022 but purchased prior to the regulatory decision on this consultation being received, will continue to be invoiced in the Pounds Sterling price applicable at the moment of booking for the capacity charges.

Any Interconnector Capacity Transactions made after any NRA approval on this consultation will be invoiced in Euros. The capacity tariffs will be published in the Interconnector Charging Statement in Euro cent/(kWh/h)/h.

For all capacity transactions with a utilisation date from 1 December 2022 onwards, Shippers will be invoiced one Commodity Charge by Interconnector for their physical flows into/out of the CMA. This will be invoiced in Euro cent/kWh.

3.2.2 Inter TSO Transfer

Interconnector will be responsible for the invoicing of the capacity and commodity charges incurred by Shippers entering/exiting the CMA via the Bacton IP. As this includes the section on the Fluxys Belgium transmission system, a transfer from Interconnector to Fluxys Belgium of the associated charges will be facilitated. This will encompass the Fluxys Belgium Entry and Exit capacity charges as well as the total commodity charge based on realised allocations. The applicable charges for these elements are the Fluxys Belgium regulated tariff for the IZT IP and the published commodity charge formulae, therefore Fluxys Belgium is kept whole at all times.

This is in line with the current Fluxys Belgium Charging Methodology and as such means that there are no tariff adjustments required elsewhere on the Fluxys Belgium network, providing a simple, economically fair and transparent solution.

3.3 Nominations, Allocations and Balancing

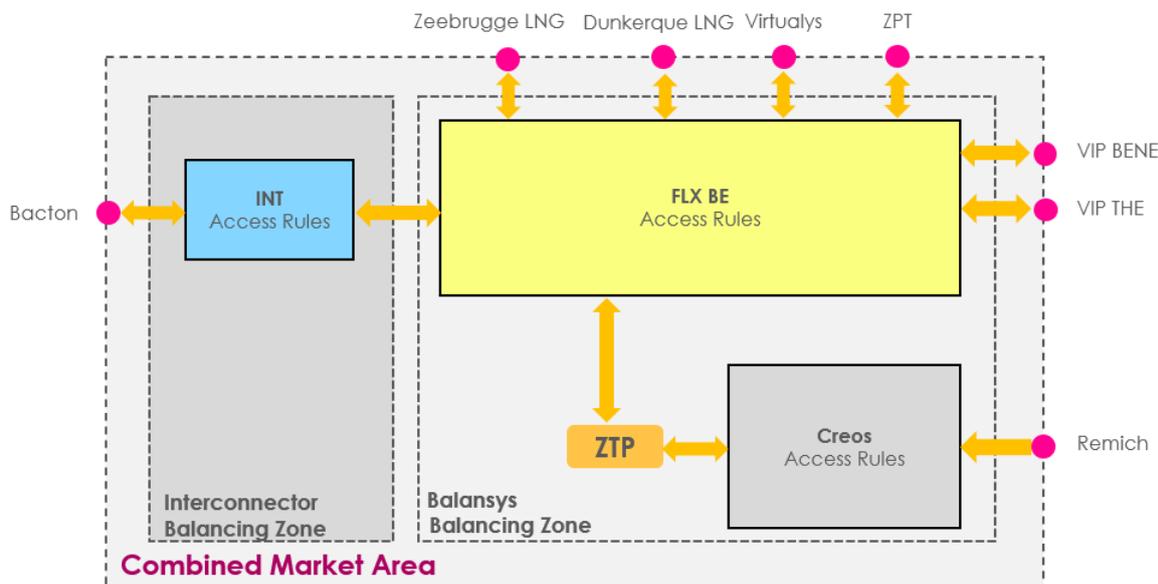


Figure 4: Configuration of Balancing Zones within the Combined Market Area

3.3.1 Nominations & Allocations

Following the removal of the IZT IP, only one nomination will be required to transport gas directly to/from the CMA. This nomination would be placed at the Bacton IP and the nomination and corresponding flow allocation would then be automatically transferred, via the IZT Connection Point, to the Shipper's position on Balansys, for use in the BeLux Balancing Zone.

The IZT IP will remain in place as a physical point but also as a transfer point between the two Balancing Areas. The expectation is that the Shipper entity would be the same across Interconnector, Fluxys Belgium and Balansys. However, the existence of this transfer point means that Shippers may have a different legal entity registered in the Belgian Market (and with Balansys) compared to the entity registered with Interconnector. In such case, a permanent Balancing Partner can be setup on the Fluxys Belgium System. The Interconnector Shipper can therefore deliver gas to the IZT Connection Point, where title can then transfer to the Balancing Partner for delivery in the Balansys Balancing Zone.

3.3.2 Balancing

Balancing within the BeLux area is currently harmonised and operated by Balansys, the Balancing Operator. Under the new model, Balansys will continue to govern balancing in the BeLux balancing zone, while Interconnector will retain its existing balancing regime, as shown in Figure 4. There will be no change to the current balancing arrangements on the BeLux balancing zone and Interconnector will continue to operate an hourly *in=out* balancing regime (excluding non-OBA days).

Shippers who utilise an OCUC or Wheeling service between the Bacton IP and another Entry/Exit point on the Fluxys Belgium System, will remain outside of the Balansys area as is the case today. Additionally, Shippers holding such an arrangement will be allocated a separate Shipper Code for their nominations at Bacton IP to ensure this setup is achieved.

This separation of balancing areas means that Interconnector can retain its current linepack flexibility and the introduction of a proposed short term storage service within the Interconnector is not impacted by the proposals discussed in this consultation.³ This is also possible because the physical connection point at IZT still remains between the INT and Fluxys systems. There are no changes to the physical arrangements at this point which govern metering, gas quality, communication or operational protocols.

3.3.3 Customs Processes for flows to/from the CMA

As any gas transported to/from the CMA via the Interconnector will be transiting between the UK and European Union ("EU"), there are no changes to the current Customs Formalities.

Shippers remain responsible for the customs declarations in Belgium. The allocation data at the Zeebrugge Connection Point can be used for these declarations as the physical connection point between the Interconnector pipeline and the Fluxys Belgium Transportation System remains in place at IZT, with no changes to the metering or fiscal systems. Interconnector will retain responsibility for the customs declarations towards the UK authorities at the Bacton IP.

³ <https://www.fluxys.com/en/products-services/empowering-you/customer-interactions/consultations-in-the-uk/2021---consultation-on-the-interconnector-storage-service>

4. Timeline

This stakeholder consultation will run from 23 May 2022 until 20 June 2022.

Following this stakeholder consultation, Fluxys Belgium and Interconnector will review the responses with the aim to submit final proposals to Ofgem and CREG by the end of June 2022. Subject to NRA approval, Fluxys Belgium and Interconnector are targeting an implementation date for the new integrated market model of 1 December 2022.

A further market information session will be held to communicate the new commercial rules and steps for implementation if a positive NRA decision is received. This will be held prior to the implementation date.

For information regarding the submission of consultation responses, please refer to the independent Consultation Letters of Fluxys Belgium and Interconnector.

5. Consultation Documents

The following documents have been published on the Fluxys website as part of this consultation:

1. Joint Consultation Brochure

Fluxys Belgium – [available here](#)

2. Consultation Letter

All with Changes Tracked:

3. Fluxys Standard Transmission Agreement
4. Access Code for Transmission
5. Transmission Program

Interconnector Limited – [available here](#)

6. Consultation Letter

All with Changes Tracked:

7. Interconnector Access Agreement – Issue 9
8. Interconnector Access Code – Issue 9
9. Interconnector Charging Methodology
10. Interconnector Access Agreement Summary