

Interconnector (UK) Limited



**Charging Methodology Statement
related to the
IUK Access Agreement
and
IUK Access Code
for Gas Year Starting 1 October 2014**

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1. Introduction

This statement sets out the charges that Interconnector (UK) Limited (“IUK”) will apply during the Gas Year starting on 1 October 2014 for transportation services provided under an IUK Access Agreement (the “IAA”) and subject to the provisions set out in the IUK Access Code (the “IAC”). For this Gas Year the transportation services relate to capacity made available through oversubscription and surrender of already contracted capacity.

Further information on the charges that apply for transportation services under an IAA is set out in the IAC Section F.

Information about IUK and an electronic version of this publication can be found on the IUK website at www.interconnector.com.

1.1. Contractual Framework

The contractual framework for accessing IUK’s transportation system comprises the IUK Access Agreement between IUK and IAA Shippers whose gas is transported, and the IUK Access Code - a set of standard rules for acquiring and using capacity. An electronic data system called ISIS is used to support the commercial operations and provide information for billing purposes.

A summary of the contractual framework and copies of the IAA and IAC can be found on www.interconnector.com.

1.2. Units

Charges are expressed and billed as follows:

- Entry Capacity – pence per kWh per hour per day (p/kWh/h/day)
- Exit Capacity – pence per kWh per hour per day (p/kWh/h/day)
- Buy-back Prices – pence per kWh per hour per day (p/kWh/h/day)
- Registration Fee and Monthly Administration Fee – pounds sterling
- Imbalance Charges – Pounds sterling
- Fuel Gas Charges – Pounds sterling
- Electricity Charges - Euros

All charges are rounded to 4 decimal places and invoiced amounts will be either in Pounds sterling to the nearest penny or Euros to the nearest euro cent.

2. Capacity Charges

Entry and Exit Capacity Charges are payable when a right to flow gas is purchased irrespective of whether or not the right is exercised.

Entry and Exit Capacity is made available for sale by means of auctions. Capacity will be advertised and sold via an auction conducted on the day ahead of the intended day of use.

All Entry and Exit Capacity auctions are subject to Reserve Prices. The Reserve Prices to apply during the Gas Year starting 1 October 2014 are :

Entry Capacity = 0.4175 p/kWh/h/day

Exit Capacity = 0.4175 p/kWh/h/day

The methodology for calculating these prices is set out in appendix 1.

3. Initial Registration Fee

The Initial Registration Fee charged by IUK for any new IAA Shippers signing an IAA during the Gas Year starting on 1 October 2014 is £10,000. This must be paid before the new IAA Shipper can access ISIS and purchase capacity.

The fee for future Gas Years will be calculated as set out in Appendix 2.

4. Monthly Administration Fee

The Monthly Administration Fee payable by each IAA Shipper under an IAA is £500. This will form part of the Monthly Charge invoiced to IAA Shippers.

The fee for future Gas Years will be calculated as set out in Appendix 2.

5. Maximum Buy-back Price

When IUK implements the Buy-back procedure as set out in the IAC Section C paragraph 3.1, it will accept offers from shippers subject to paying no more than the Maximum Buy-back Price. This is the aggregate price that IUK will pay for offered Entry Capacity and Exit Capacity and will be calculated as the weighted average price paid for that day's Entry Capacity and Exit Capacity plus a premium of 0.8189 p/kWh/h/d. The premium for future Gas Years will be calculated as set out in Appendix 2.

6. Forced Buy-back Price

When IUK implements the Forced Buy-back procedure set out in the IAC Section C paragraph 3.2, it will pay an IAA Shipper for the reduction in Entry Capacity and Exit Capacity 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.

7. Net OS Revenue Account

IUK will keep track of the revenue from IAA Capacity sales that originated from oversubscription on a cumulative basis over the Gas Year, minus any payments made for Buy-back during that time. The net amount will be allowed to go negative up to a limit, the "**Maximum Deficit**" of £100,000. At this level, if further Buy-back is required, IUK will implement the Forced Buy-back procedure.

At the end of the Gas Year, if the balance in the Net OS Revenue Account is positive, then 75% of this amount will be distributed to all shippers (STA and IAA Shippers) based on their allocated flow over the year. If the balance in the Net OS Revenue Account is negative, the amount to be distributed shall be zero.

8. Balancing Charges

An IAA Shipper has the obligation to ensure that the nomination for the quantity of Natural Gas to be offtaken from the Interconnector at Exit Points is equal to the nominations for the quantity of Natural Gas to be delivered by the IAA Shipper to the Interconnector at Entry Points. Any differences that occur between entry and exit allocations are allowed to accumulate from one day to the next without any penalty or recompense within an allowed cumulative tolerance for each IAA Shipper of $\pm 560,000$ kWh.

On any Gas Day on which the IAA Shipper's accumulated imbalance exceeds the allowed tolerance, a Balancing Charge shall apply as detailed in the IAC Section E and Section F paragraph 4.

9. Fuel Gas Charges

A Fuel Gas Charge shall be payable by an IAA Shipper in respect of any Gas Day on which any Fuel Gas is allocated to the IAA Shipper in accordance with the IAC Section D paragraph 2. Such charge shall be an amount (in Pounds Sterling) equal to the Negative Imbalance Daily Gas Price multiplied by the total quantity of Fuel Gas allocated to that IAA Shipper on that Gas Day (ref. IAC Section F paragraph 5).

10. Electricity Charges

Each IAA Shipper shall pay a monthly electricity charge, an amount (in Euros) equal to the Estimated Compressor Electricity Unit Cost multiplied by the total amount of electricity allocated to that IAA Shipper in that month in accordance with IAC Section D paragraph 2.

For the Gas Year starting on 1 October 2014, the Estimated Compressor Electricity Unit Cost has been determined as 0.094 Euro/kWh. After each Gas Year a reconciliation will take place based on the actual costs of Compressor Electricity as detailed in IAC Section F paragraph 5.

Appendix 1 – Calculation Methodology for Reserve Price

IUK's Charging Methodology for all charges under the IAA and IAC, including the method for calculating the Reserve Price has been approved by Ofgem following a public consultation as meeting IUK's standard licence condition of being objective, transparent and non-discriminatory to both existing and prospective IUK Shippers.

The base value is calculated from the average cost of capacity derived from IUK's Financial Statement for year ending 30th September 2013:

- Tariff based on construction costs = £142,883,000
- Tariff to recover operating costs = £24,901,000
- Total Capacity (kWh/h) = 59,731,735 (equivalent to 45.5 bcm/yr)

AVERAGE COST OF CAPACITY FOR GAS YEAR 2012/2013 (p/kWh/h/day)
= $(£142,883,000 + £24,901,000) * 100 / (365 * 59,731,735) = 0.8154$ p/kWh/h/day

An escalation factor is used to calculate the total Reserve Price for IAA capacity for future Gas Years:

- ESCALATION = ratio based upon the Producer Price Index (PPI) = PPI_r / PPI_o (see Appendix 2 for PPI Data)
- PPI_r = 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
- PPI_o = average PPI for twelve months ending 30 June 2012 = 106.1083
- PPI_r for 2014/15 = 108.6583
- Escalation to 2014/15 = $108.6583 / 106.1083 = 1.0240$

TOTAL RESERVE PRICE FOR OS CAPACITY FOR GAS YEAR 2014/2015 (p/kWh/h/day)
= $0.8154 * 1.0240 = 0.8350$ p/kWh/h/day

This is split 50:50 into Entry Capacity Reserve Price and Exit Capacity Reserve Price.

Appendix 2 – Calculation of Fees

The following fees will, in future Gas Years, be calculated according to the value of the following –

- (a) Initial Registration Fee:
£10,000*Escalation Factor
- (b) Monthly Administration Fee:
£500*Escalation Factor
- (c) Maximum Buy-back Price premium:
0.8189*Escalation Factor (expressed in p/kWh/h/d)

Escalation Factor = PPI_r / PPI_o

- Where “Producer Price Index” or “PPI” means the “JVZ7” Index numbers of producer prices – “PPI : 7200700000 : Net Sector Output Prices – Output of manufactured products” as published by the Office for National Statistics in the monthly Producer Price Index Dataset (or any successor to such Index published by such Office or any other department of HM Government) at www.ons.gov.uk.
- Where PPI_r = 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
- PPI_o = PPI_r for 2014/15 = 108.6583

The relevant PPI data from the above referenced source and used in this document, is reproduced below –

Base 2010=100													
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Avg
2011-12	105.4	105.4	105.6	105.6	105.8	105.7	105.9	106.3	106.8	107.2	107	106.6	106.1083
2012-13	106.8	107.2	107.5	107.6	107.4	107.2	107.6	108.1	108.4	108.3	108.3	108.4	107.7333
2013-14	108.7	108.8	108.8	108.5	108.3	108.3	108.6	108.7	108.8	108.9	108.8	108.7	108.6583

Appendix 3 – Glossary of Terms

The definitions of terms used in this document can be found in the IAA. For ease of reference various definitions are re-produced below :

“Approved Transmission System” or **“AT System”** means the National Transmission System and the Fluxys Transmission System;

“Bacton Entry Point”, **“Bacton Exit Point”** and **“Bacton Connection Point”** mean respectively the Entry Point, Exit Point and Connection Point at Bacton;

“Connection Point” means a point at which the Transportation System is connected to an Approved Transmission System;

“Entry Capacity” means capacity in the Transportation System available for use by an IAA Shipper in delivering gas to the Transportation System at the Bacton Entry Point or the Zeebrugge Entry Point;

“Entry Point” means any Connection Point which allows the delivery of Natural Gas into the Transportation System from the relevant Approved Transmission System (whether or not Natural Gas is physically flowing at that point at any given time);

“Exit Capacity” means capacity in the Transportation System available for use by an IAA Shipper in offtaking gas from the Transportation System at the Zeebrugge Exit Point or the Bacton Exit Point;

“Exit Point” means any Connection Point which allows the redelivery of Natural Gas into the relevant Approved Transmission System from the Transportation System (whether or not Natural Gas is physically flowing at that point at any given time);

“Fluxys Transmission System” or **“FTS”** means the Belgian high pressure gas transmission system currently owned and operated by Fluxys;

“Gas Year” means the period beginning at 06.00 hours (CET) on 1 October of any year and ending at 06.00 hours (CET) on 1 October of the next succeeding year;

“IUK Access Agreement” and **“IAA”** means the agreement between Interconnector and the IAA Shipper for the supply of Transportation Services by Interconnector;

“IUK Access Code” and **“IAC”** means the code published by Interconnector containing provisions for the Transportation Services offered by Interconnector to IAA Shippers;

“IAA Shipper” means the Shipper or any other person who is for the time being entitled to receive Transportation Services pursuant to an IUK Access Agreement;

“National Transmission System” or **“NTS”** means the principal pipeline system operated by National Grid Gas the conveyance of gas through which is authorised by National Grid Gas’ Licence;

“Transportation Services” means the supply by Interconnector to IAA Shippers of:

(a) services to:

(i) offtake Natural Gas from any AT System at the Bacton Entry Point;

- (ii) transport Natural Gas through the Transportation System from the Bacton Entry Point to the Zeebrugge Exit Point; and
 - (iii) make Natural Gas available for offtake from the Transportation System at the Zeebrugge Exit Point, or
- (b) services to:
 - (i) offtake Natural Gas from any AT System at the Zeebrugge Entry Point;
 - (ii) transport Natural Gas through the Transportation System from the Zeebrugge Entry Point to the Bacton Exit Point; and
 - (iii) make Natural Gas available for offtake from the Transportation System at the Bacton Exit Point;

in each case, under an IUK Access Agreement;

“Zeebrugge Entry Point”, **“Zeebrugge Exit Point”** and **“Zeebrugge Connection Point”** mean respectively the Entry Point, Exit Point and Connection Point at Zeebrugge;