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10 October 2013

Dear Stakeholder,

Consultation on the new IUK Access Agreement and IUK Access Code for selling capacity made available through new congestion management procedures

Following our consultation on the implementation of congestion management procedures in May of this year, Interconnector (UK) Limited¹ ("IUK") is now seeking your feedback on its proposed new contractual framework, the IUK Access Agreement ("IAA") and associated IUK Access Code ("IAC"). The IAA and IAC have been designed to enable IUK to sell capacity made available through the new congestion management procedures, as outlined in the amended Annex I to Regulation (EC) No 715/2009².

Outline of this Consultation

This Consultation is divided into 3 parts:-

- Part 1 explains why IUK is introducing this new contractual framework
- Part 2 outlines the key elements of the contractual framework
- Part 3 sets out the consultation process, indicative timeline and how to respond

The following documents are published on our website for you to review and provide feedback on:-

- The IUK Access Agreement and the IUK Access Code that Shippers will sign up to in order to access the new service provision
- The IUK Access Agreement Service Summary, a non-contractual document designed to help prospective IUK Shippers determine whether or not they wish to contract for the services offered by IUK under the IUK Access Agreement

¹ Interconnector (UK) Limited is a joint venture company that was set up to construct and operate a strategic bi-directional gas pipeline and terminal facilities that link the UK and continental European energy markets. The IUK system is capable of transporting around 810 GWh/d from Zeebrugge in Belgium to Bacton in the UK and 630 GWh/d in the opposite direction.

² Amended guidelines for CMP in Annex I of Regulation (EC) No 715/2009 were published in the European Official Journal, on 24 August 2012, following approval by the European Parliament and Council: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:231:0016:0020:en:PDF>

PART 1: CONTEXT

In 2005 the European Commission launched a sector inquiry in response to concerns raised by market participants in the wholesale European energy markets. The final report, published in 2007, identified a number of shortcomings in the operation of the market. To address these concerns, and to strengthen the regulatory framework for a liberal wholesale energy market, the Third Energy Package (a package of legislative measures) was adopted in 2009. The Third Energy Package includes Regulation (EC) No 715/2009 which contains new Congestion Management Procedures (CMP) that are to be implemented by Transmission System Operators and approved by the relevant National Regulatory Authorities.

The CMP aim to facilitate cross-border trade by preventing the hoarding of capacity. They require Transmission System Operators to optimise and maximise the use of their systems' capacity and outline measures to be implemented in the event of "contractual congestion". "Contractual congestion" is defined in Regulation (EC) No 715/2009 as "a situation where the level of firm demand exceeds the technical capacity of the transmission system".

IUK was established in 1994 to construct and operate a bi-directional gas interconnector pipeline between Bacton and Zeebrugge. The IUK system, which commenced operations in 1998, comprises:

- a compression/reception terminal at Bacton in the UK with connections to the National Grid Gas transmission system and SILK Pipeline³;
- a compression/reception terminal at Zeebrugge in Belgium with a connection to the Fluxys Belgium transmission system; and
- a 235 kilometre pipeline between the two terminals.

IUK provides a strategic, physically bi-directional link between the UK and Continental European energy markets. All of IUK's capacity has been sold, following open seasons, until the end of September 2018. IUK's technical capacity has been designed to meet the level of demand indicated in the open seasons. IUK capacity has been actively traded since 1998 and currently 15 parties (known as "Shippers") have access to firm capacity in the IUK system.

During the course of its operation, IUK has also developed a number of mechanisms that make interruptible capacity available and enable parties who are not currently Shippers to access capacity in the IUK system via the secondary market⁴.

IUK proposes to introduce a suite of congestion management procedures, in accordance with the relevant regulation, to further improve its service offering. These procedures will be implemented through a new contract and changes to the existing contracts with current Shippers.

³ The SILK Pipeline can deliver upstream gas directly to the IUK system.

⁴ For further information on the ways in which an interested party can access capacity from existing Shippers see our website www.interconnector.com

IUK consulted the market on its proposals for CMP implementation in May 2013 and published a summary of the consultation responses in June 2013. These can be found on our website, <http://www.interconnector.com/about-us/what-we-have-to-say/consultations/>.

Following the consultation responses IUK has worked closely with the National Regulatory Authorities ("NRAs"), Ofgem (UK) and CREG (Belgium) to finalise the proposed service offerings. IUK's CMP implementation programme will be subject to the approval of its NRAs.

Further details of the proposal are included in the IUK Access Agreement Service Summary, a non-contractual document designed to help prospective IUK Shippers determine whether or not they wish to subscribe to the services offered by IUK under the IUK Access Agreement.

IUK will also publish a Charging Methodology Statement, summarising the main charges under the IAA that were set out in the consultation carried out by IUK during May 2013, and which includes the revised Buy-back arrangements.

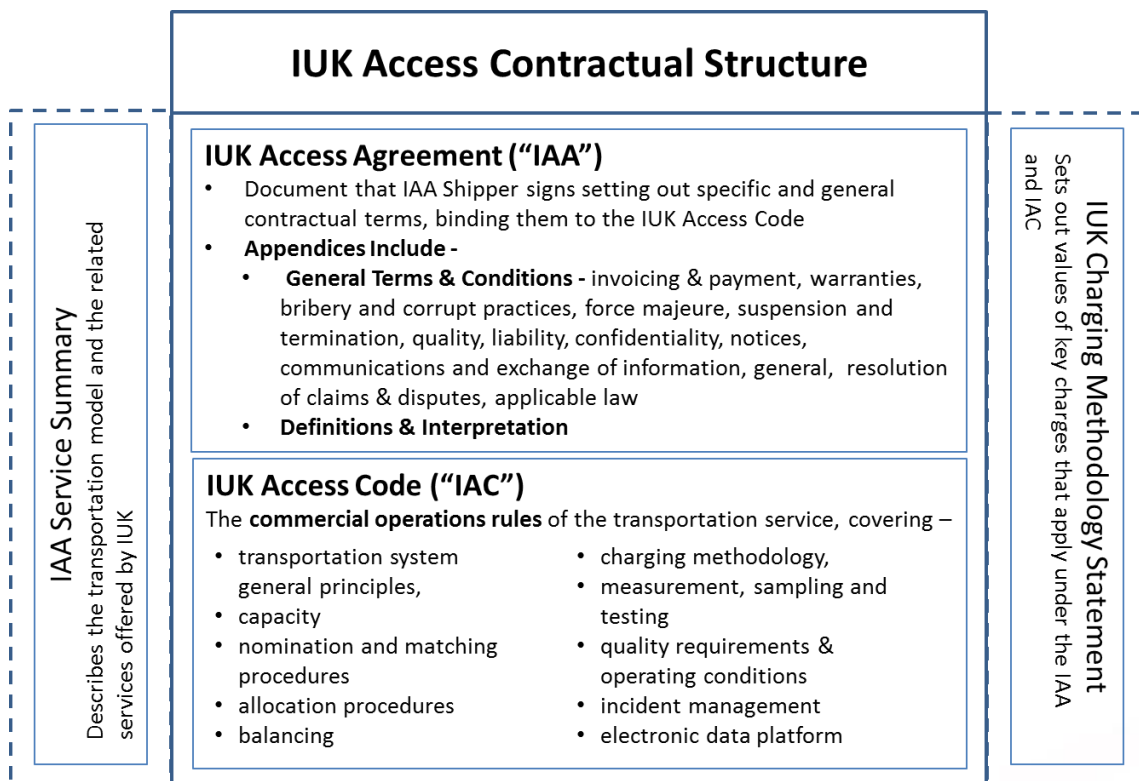
PART 2: THE CONTRACTUAL FRAMEWORK

In order to implement CMP, IUK has designed a new contractual framework with the following features:

- Parties will be able to contract for Interconnector capacity directly with IUK via the new IUK Access Agreement (“IAA”). Standard rules for acquiring and using Interconnector capacity, applying to all IAA Shippers, will be set out in the IUK Access Code (“IAC”). These arrangements will be in addition to and separate from the existing secondary market mechanisms which allow parties to acquire Interconnector capacity from existing IUK Shippers.
- Entry and exit capacity may be made available at Bacton and Zeebrugge on a day-ahead basis for sale under the IAA. This capacity consists of any Over-subscription Capacity IUK make available in addition to Surrendered or LT UIOLI Capacity⁵ from current IUK Shippers.

The contract is formed of the IUK Access Agreement (“IAA”) and the IUK Access Code (“IAC”) that Shippers will sign up to in order to access the new service provision.

The following diagram illustrates how the different part of the contract fit together:



We are seeking your views on the IAA and IAC in response to this consultation.

⁵ Please note that IUK will implement an additional element of CMP, the Firm Day-Ahead UIOLI provisions, in July 2016 in accordance with the relevant regulatory requirements.

PART 3: YOUR FEEDBACK

Outlined below is the indicative timetable that we propose to follow when implementing the Congestion Management Procedures via the new contract:

Date	Action
10 Oct 2013	IUK asks all stakeholders to provide feedback on its proposed new contract, the IUK Access Agreement and IUK Access Code
7 Nov 2013	The consultation period ends and IUK begins the process of reviewing stakeholder feedback
14 Nov 2013	IUK publishes the non-confidential responses on its website for stakeholders to review
Dec 2013	The contract is finalised following consideration of stakeholder feedback
Jan 2014	Capacity is made available under the new contract (subject to the required agreements and approvals, and subject to process and system changes)

IUK is interested in receiving your feedback on the proposed new contract.

Please send your response to consultation@interconnector.com by 7 November 2013. Any responses not marked confidential will then be published on IUK's website in accordance with the indicative timetable above.

If you wish to clarify anything outlined in this letter or have any questions please do not hesitate to contact Lucy Manning on +44 (0)20 7092 6594.

We look forward to hearing from you.

Yours faithfully

DARREN REEVE
Commercial Director