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**MCM-D**

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**Consultation on ZIGMA model and implementation of the Capacity Allocation Mechanism (CAM) and Balancing (BAL) EU network Codes**

Dear Darren,

As a primary capacity holder in the Interconnector (UK) pipeline and one of the largest pan-European trading companies, RWE Supply and Trading (RWEST) welcomes the opportunity to comment on the following questions raised in the above consultation. We apologise for the slight delay in submitting our response.

*1. What is your general feedback on ZIGMA?*

ZIGMA appears to have been designed as a means to enable IUK and Fluxys to implement the binding obligations contained in the forthcoming EU Network Codes, whilst retaining the ability to trade gas in the Zeebrugge area without the need for onward transmission to downstream transmission networks.

As such it largely represents the "status quo", although converting the Zeebrugge market from a physical to virtual market may have some incremental benefits in terms of attracting new entrants and increasing liquidity and flexibility.

Conceptually, we consider ZIGMA to be a merger of IUK, Zeeplatform and OCUC. In this concept we question whether there is a need for Huberator (that runs the Zeeplatform) to still exist as a separate entity, or what value this adds.

The consultation document is silent on how ZIGMA entry and exit capacity will be charged for, both at the three interconnection points at which bundled capacity is required to be offered under CAM and at the locations where today gas can be brought into Zeebeach without incurring capacity charges (ZPT and Zeebrugge LNG). These details will have a critical impact on the extent to which ZIGMA is able to make itself a more attractive trading venue and continue to facilitate efficient price arbitrage between interconnected EU gas markets.

*2. Do you agree that the proposed balancing model is compliant with the BAL Network Code?*

On the face of it, yes. However, until such time as detailed proposals are presented this cannot be assumed. In particular, the extent to which IUK (as the Balancing Agent) will prioritise the use of title products to balance ZIGMA needs to be understood.

*3. We are evaluating whether the balancing contract is in a separate contract or within the IUK Access Agreement (IAA). Do you have any preference?*

We do not have a preference, but a separate contract with the new Balancing Agent may potentially have implications from the perspective of national law which we cannot yet foresee.

*4. The Concept Document meets the requirement in article 26(4) of BAL to consult Stakeholders on Within Day Obligations (WDOs). Do you agree that the WDOs detailed in Appendix 4 are an appropriate set of WDOs?*

The WDOs detailed in Appendix 4 are generally consistent with the definition of a “system-wide within day obligation” in BAL and reflect the current Fluxys regime. However, the circumstances under which IUK may apply any renomination curtailment for “causing” shippers needs to be defined. Curtailments should only be possible in case of an emergency, when the market does not provide the Balancing Agent with enough gas to be bought or sold at whatever price. These balancing arrangements and ZIGMA in general, may require amendments to be made to the Zeebrugge appendix to the EFET master agreement. IUK should be open to collaboration with EFET in this respect.

Whilst the criteria included in BAL for applying WDOs seem to be met, IUK should provide more detailed information about the degree of flexibility inherent in ZIGMA under varying flow assumptions as part of the continuing determination of the Market Threshold over time.

The Balancing Agent will buy or sell gas at the ZIGMA virtual point to keep the Market Balancing Position within the Market Threshold. If the Balancing Agent does this via a platform operated by a third party then the conditions and charges associated with what is effectively a monopoly service, should be subject to the approval of the relevant regulator(s).

Within day attribution of balancing costs to a shipper causing and imbalance at the market price for within day gas is a sufficient incentive for shippers collectively within the Market Threshold. We do not see any reason to charge an additional percentage on top of this market price, as currently applies in the Belgian balancing system.

*5. Do you agree that the proposals set out in Sections 3, 4 and 5 are compliant with the CAM Network Code?*

On the face of it, yes. However, until such time as detailed proposals are presented this cannot be assumed.

We note that National Grid has recently published Modification Proposal 500 regarding EU Capacity Regulations. IUK should continue to collaborate with National Grid to ensure that the bundling concept included in CAM is applied effectively, without compromising the contractual entitlements and trading opportunities of its existing long-term capacity holders.

*6. The Concept Document meets the requirement in article 8(9) of CAM to consult Stakeholders on the capacity to be set aside for short-term auctions. Do you support the quantity of capacity to be set aside for short-term auctions defined in sections 3.4.5 and 4.4.3 of the Concept Document?*

Yes

*7. Do you support single-sided nominations being accepted for unbundled capacity if the same entity owns the capacity on both sides of the IP?*

We are not yet able to assess the implications of this from an IT systems perspective, so cannot offer our support at this stage. In principle however, this should improve operational efficiency. So we support IUK investigating this further and drawing up processes for how this might work.

*8. Do you support the proposal that surrendered capacity that is not reallocated in an auction is not automatically rolled forward to future auctions?*

Yes

*9. Do you have any other feedback on the Concept Document?*

Whilst there may be some incremental benefits resulting from ZIGMA, once implemented it will leave Belgium in the unusual position of having two virtual trading points operating in different currencies and with different levels of liquidity.

On expiry of the existing long-term capacity contracts the original capital cost of building the IUK pipeline will have been fully recovered. So a more ambitious long term plan to bundle capacity between the NBP and a single Belgium virtual trading point could be more easily achievable. If Belgium trading liquidity was concentrated at a single Euro denominated virtual trading point this could increase the attractiveness of pursuing future mergers with neighbouring markets. This may, at least in theory, make it easier to achieve the elusive "single NWE market" that regulators aspire to.

Regardless of this, the fact that the IUK pipeline will shortly become a fully depreciated asset should be taken due account of by regulators when setting ZIGMA entry and exit tariffs relating to flows through IBT.

Yours sincerely,

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