

Interconnector (UK) Limited8th floor, 61 Aldwych

London WC2B 4AE

Direct Dial: + 44 (0)20 7092 6500

Switchboard: + 44 (0)20 7092 6500

Central Fax: + 44 (0)20 7092 6501

Email: consultation@interconnector.comWebsite: www.interconnector.com

25 June 2015

Dear Stakeholder,

In January we sought your views on various elements of our future arrangements including the contract that Shippers will be required to sign to access our services, the IUK Access Agreement (“IAA”) and the IUK Access Code (“IAC”), the commercial operation rules relating to our transportation services.

We consulted on the amendments to the IAA and IAC required to allow us to comply with the Capacity Allocation Mechanism Network Code (“CAM”) and Balancing Network Code (“BAL”), and offer capacity in a variety of durations from November 2015 and from October 2018 (when IUK’s existing long term contracts expire). Under the IAA, Shippers can purchase entry and exit capacity we make available at each of our two Interconnection Points, IBT (Interconnector Bacton Terminal) and IZT (Interconnector Zeebrugge Terminal).

Taking account of responses received to the consultation and input from NRAs, further modifications were made to the drafting and the IAA and IAC have been submitted to Ofgem and CREG.

Reshuffling Service

Following discussion with the market we are now pleased to announce that IUK is considering introducing a “Reshuffling Service” into the IAC to allow greater flexibility in relation to the transportation services provided and in particular to facilitate the transition towards CAM starting on 1 November 2015.

The Reshuffling Service is designed to give Shippers the flexibility to shift capacity they have subscribed to as long as they meet the conditions stated in the IAA, IAC and the specific reshuffling rules for any Reshuffling Process launched by IUK (“Reshuffling Rules”). Specific Reshuffling Rules for each Reshuffling Process will be determined by IUK and published in advance of any particular Reshuffling Service subscription window.

Potential Reshuffling services could include:

- A **time shift** to enable a Shipper to swap capacity in time. For example, a Shipper could swap capacity from one year to a future year.
- A **location shift** to enable a Shipper to swap entry capacity at one location for entry capacity at the other location and exit capacity at one location for entry capacity at the other location. For example a Shipper could swap entry capacity at IZT and exit capacity at IBT (which enables gas flow nominations from Belgium to the UK), for entry capacity at IBT and exit capacity at IZT (which enables gas flow nominations from the UK to Belgium).

The Reshuffling Service will result in the Shipper's capacity being sold back to IUK in exchange for the Shipper's purchase of capacity (that would give effect to a time shift or a location shift) under a capacity transaction, the purchase to be either through an auction or a subscription process held by IUK in accordance with the IAA and IAC and the rules applicable to the auction or subscription process. Capacity may only be reshuffled to the extent that the request for IUK to repurchase capacity can be met and the capacity is allocated under the applicable auction or subscription process. The Reshuffling Service would apply to firm capacity only.

The value of the requested capacity (sum of the monthly capacity fees) must be greater than the value of the subscribed capacity to be reshuffled, taking into account any multiplier that applies as specified in the specific Reshuffling Rules for any Reshuffling Service offered. For a time shift the multiplier must take into account, amongst other things, the time-value of the transaction as defined by IUK.

The proposed legal drafting required to introduce this Reshuffling Service into the IAC and IAA is attached in Annex A. Annex B contains the full versions of the IAA and IAC submitted to Ofgem and CREG marked up with the changes detailed in Annex A.

Sales Process

In January we also sought your views on the key elements of a sales process offering capacity for utilisation from 1 October 2018. This sales process closed on 20 May 2015.

In conjunction with the proposed Reshuffling Service, IUK is considering launching a further sales process, to held before 31 October 2015, based on the previous sales process. This process will allow Shippers to benefit from fixed prices, price incentives for long-term bookings, and the possibility of a lowest price guarantee. The reserve prices for different capacity products offered will be based on the principles of our Charging Methodology which formed part of the consultation held in January.

We are interested in hearing your views on our proposal to introduce a Reshuffling Service and/or undertake a further Sales Process prior to 31 October 2015.

We would welcome your responses to a number of specific questions:

- Do you support the proposal to introduce the potential for future Reshuffling Processes?

- Do you think both the time shift and the location shift will provide additional flexibility to Shippers?
- In particular would you like to see a time shift Reshuffling Service launched to allow Capacity held now to be shifted to 1 October 2018 and beyond?
- Would you support the idea of a sales process to be held before 31 October 2015 offering Shippers the opportunity to purchase capacity for use from 1 October 2018 enabling them to flexibly arrange their capacity portfolio?
- Do you have any comments on the proposed legal drafting amendments to the IAA and IAC to introduce the Reshuffling Service?
- Do you have any other feedback on the proposed service?

We would appreciate comments from all interested parties.

Please send your response to consultation@interconnector.com by 17:30 UKT on 23 July 2015.

Please ensure that a “read receipt” is requested to confirm that your response has been received. 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 Danielle Stoves on +44 (0)20 7092 6500 to discuss.

Please note that this consultation does not commit or bind IUK to holding either a reshuffling process or a sales process.

We look forward to hearing from you.

Yours faithfully

DARREN REEVE

Commercial Director

ANNEXES:

ANNEX A
DRAFT AMENDMENTS TO THE VERSIONS OF THE IUK ACCESS AGREEMENT AND THE
IUK ACCESS CODE SUBMITTED FOR APPROVAL MAY 2015

Amendments to the IUK Access Code

1. Amend Section A paragraph 2 as follows:

2. **Capacity**

Section B contains provisions governing the acquisition, registration, transfer, assignment, surrender and buy-back and reshuffling of Entry Capacity and Exit Capacity.

2. Amend Section B as follows:

(a) Insert a new paragraph 3.8 as follows:

3. Obtaining and Releasing Capacity

3.8 An IAA Shipper may apply to reshuffle its Registered Capacity under a Reshuffling Process held in accordance with paragraph 9.

(b) Amend paragraph 5.2 as follows:

5.2 Capacity Transaction

Each of the following gives rise to a legally binding transaction between IUK and the IAA Shipper in respect of such Capacity (a "Capacity Transaction"):

- (a) ~~the allocation of Offered Capacity to an IAA Shipper under paragraph 5.1;~~
- (b) the sale by the IAA Shipper and purchase by IUK of Sold Back Capacity from the IAA Shipper and allocation by IUK to the IAA Shipper of Offered Capacity both under paragraph 9.1; and
- (c) a Capacity Assignment to an IAA Shipper that is a Capacity Assignee under paragraph 8. ~~each gives rise to a legally binding transaction between IUK and the IAA Shipper in respect of such Capacity (a "Capacity Transaction");~~

†The details of a Capacity Transaction ~~which~~ may be recorded in a Confirmation. The form of Confirmation for a Capacity Transaction under ~~the~~ a Subscription Process held by IUK in 2015 is substantially in the form set out in Annex B-3 and for a Capacity Transaction referred to in paragraph (b) is substantially in the form set out in Annex B-4.

(c) Amend paragraph 5.3 as follows:

5.3 Registration

(a) IUK shall for a Capacity Transaction concluded between IUK and the ~~an~~ IAA Shipper under paragraph 5.2:

(i) register an IAA Shipper on the IUK Information System as holding the allocated or assigned amount of Entry Capacity at the specified Entry Point or Exit Capacity at the specified Exit Point, as Firm or Interruptible, for the specified Capacity Product, for the specified Capacity Period and subject to the applicable Entry Capacity Charge or Exit Capacity Charge;

(ii) include the allocated or assigned amount of Entry Capacity or Exit Capacity in the Registered Capacity of such IAA Shipper; ~~and~~

(iii) where the Capacity Transaction is a Capacity Assignment, deduct the Assigned Capacity from the Registered Capacity of the Capacity Assignor; and

(iv) where the Capacity Transaction includes the sale and purchase of Sold Back Capacity, deduct the Sold Back Capacity from the Registered Capacity of the IAA Shipper that held such Sold Back Capacity.

(d) Amend paragraph 8.5 as follows:

8.5 Where IUK gives effect to a Capacity Assignment:

(a) paragraph 5.2 shall apply;

(b) the Capacity Assignor shall with effect from the Capacity Assignment Date cease to have any rights, liabilities or obligations relating to or arising in respect of the Assigned Capacity (including for payment of Capacity Charges); and

- (c) the Capacity Assignee shall with effect from the Capacity Assignment Date be entitled to all rights and assume all previous, existing and future obligations and liabilities relating to or arising in respect of the Assigned Capacity (including for payment of Capacity Charges).

- (e) Insert a new paragraph 9 as follows:

9. Capacity Reshuffling

9.1 IUK may hold a “Reshuffling Process” under which IUK invites IAA Shippers holding Registered Capacity to apply during a period specified by IUK (“Reshuffling Window”) to:

(a) make available for purchase by IUK a quantity of such Registered Capacity at a specified Entry Point and/or Exit Point held during [all or part of] specified Gas Year(s) (“Sold Back Capacity”) for a [fixed] price IUK pays to the IAA Shipper multiplied by the quantity of Sold Back Capacity (the “Sold Back Capacity Payment”); and

(b) be allocated Offered Capacity under an Allocation Mechanism that:

(i) is equivalent to or greater in value (in Pounds Sterling) to the Sold Back Capacity (taking account if applicable of any multipliers set by IUK in the Reshuffling Rules (as defined below)); and

(ii) will be held by the IAA Shipper for a different period in time or at a different Entry Point or Exit Point to the Sold Back Capacity (taking account if applicable of any multipliers set by IUK in the Reshuffling Rules (as defined below));

where, unless otherwise stated in the Reshuffling Rules (as defined below), the sale by the IAA Shipper and the purchase by IUK of Sold Back Capacity under paragraph (a) is conditional upon the allocation of Offered Capacity to the IAA Shipper under paragraph (b), such capacity being “Reshuffled Capacity”.

9.2 IUK may hold a Reshuffling Process at such time and under such rules (“Reshuffling Rules”) as IUK determines, approved by the Regulator(s) where applicable.

9.3 The Reshuffling Rules for a Reshuffling Process shall be set out in an annex to this Section B or such other document as IUK specifies and may include the following (without limitation):

- (a) the Reshuffling Window;
- (b) the conditions an IAA Shipper must satisfy to be eligible to make an application under paragraph 9.1(a) which may include (without limitation): the Class; the Capacity Products; the Capacity Period; the quantity or the value of Registered Capacity offered for sale; and the Entry Point and/ or Exit Point at which Registered Capacity offered for sale must be held;
- (c) the application procedure for an IAA Shipper, including requirements for the validity of applications, whether applications may be amended or withdrawn or may have to be re-submitted;
- (d) the Allocation Mechanism under which an IAA Shipper must apply for Offered Capacity under paragraph 9.1(b) and any terms and conditions relating to such application that vary or are additional to those set out in the rules applicable to the Allocation Mechanism which may include (without limitation): the Capacity Products; the Class; the Entry Point and/or Exit Point; the value of; and the minimum or maximum Capacity Period of the Offered Capacity that an IAA Shipper may apply for; and
- (e) any other terms or conditions applicable to the Reshuffling Process including, if applicable any multipliers set by IUK.

9.5 An IAA Shipper shall not submit a Capacity Transfer Request or Capacity Assignment Notice in respect of Sold Back Capacity.

9.6 Where Sold Back Capacity is sold by the IAA Shipper and purchased by IUK under this paragraph 9:

- (a) IUK shall be released and discharged from all obligations and liabilities under this Agreement to the IAA Shipper in respect of such Sold Back Capacity; and
- (b) the IAA Shipper shall cease to have any obligations or liabilities in respect of Sold Back Capacity other than those liabilities that are accrued or outstanding at the time of such sale and purchase.

- (f) Amend Annex B-3 as follows:

**ANNEX B-3
CAPACITY TRANSACTION CONFIRMATION TEMPLATE FOR FIRST 2015 SALE OF POST
2018 CAPACITY**

3. Terms of this Capacity Transaction

PART A

Subscription Rules: The rules set out in the paper “Subscription Rules for [xxxx] First 2015 Sale of Post 2018 Capacity.”

- (g) Insert a new Annex B-4 as follows:

ANNEX B-4
CAPACITY TRANSACTION CONFIRMATION TEMPLATE FOR RESHUFFLING OF REGISTERED CAPACITY

1. Subject Matter

This Confirmation confirms a Capacity Transaction between IUK and the IAA Shipper for the sale by the IAA Shipper and purchase by IUK of Sold Back Capacity under Part A below and the allocation to the IAA Shipper of Offered Capacity under Part B below, in accordance with paragraph 9 of Section B of the IUK Access Code.

This Capacity Transaction is subject to IUK Access Agreement and IUK Access Code (as modified), the Reshuffling Rules applicable to such Reshuffling Process and the terms and conditions set out in this Confirmation.

The purchase by the IAA Shipper of Offered Capacity under Part B is also subject to the Subscription Rules referred to in Part B below.

This Confirmation supersedes any other communication or agreement between the Parties with respect to the Capacity Transaction.

This Confirmation shall prevail over any other evidence confirming the Capacity Transaction.

If there is any inconsistency or inaccuracy in this Confirmation, the IAA Shipper shall inform IUK within three (3) Business Days after receipt and where IUK agrees there is an inconsistency or inaccuracy, IUK shall amend this Confirmation and send such amended Confirmation to the IAA Shipper.

This Confirmation shall prevail to the extent of any inconsistency between this Confirmation and (a) the IUK Access Agreement or the IUK Access Code (howsoever modified); or (b) the Reshuffling Rules. Where there is an inconsistency between the Reshuffling Rules and the Subscription Rules with respect to this Confirmation, the Reshuffling Rules shall prevail.

2. Definitions and Interpretation

Capitalised terms shall have the meaning given to them in Appendix B to the IUK Access Agreement unless otherwise defined.

3. Terms of this Capacity Transaction

<u>Date:</u>	<u>[xx]/[xx]/[xxxx]</u>
<u>Reshuffling Process:</u>	<u>Held on [xx]/[xx]/[xxxx] for Registered Capacity held for [xxxx].</u>
<u>Reshuffling Rules:</u>	<u>The rules set out in the paper “Reshuffling Rules [xxxx].”</u>
<u>Reshuffling type:</u>	<u>[Capacity Period]/[Entry Point or Exit Point]</u>
<u>IAA Shipper:</u>	<u>[xxxxxxxx]</u>
<u>Bid Reference:</u>	<u>[insert binding bid form reference]</u>

PART A

SOLD BACK CAPACITY

<u>Entry Point:</u>	<u>[Bacton Entry Point]/[Zeebrugge Entry Point]/[N/A]</u>
<u>Exit Point:</u>	<u>[Bacton Exit Point]/[Zeebrugge Exit Point]/[N/A]</u>
<u>Capacity Period:</u>	<u>[xxxxxxxx]</u>
<u>Amount of Sold Back Capacity:</u>	<u>[xxxxxxxx]</u>
<u>Sold Back Capacity Payment:</u>	<u>[xxxxxxxx]</u>

PART B

RESHUFFLED CAPACITY

<u>Subscription Process:</u>	<u>Held on [xx]/[xx]/[xxxx]</u>
<u>Subscription Rules:</u>	<u>The rules set out in the paper “Subscription Rules [xxxx].”</u>
<u>Entry Point:</u>	<u>[Bacton Entry Point]/[Zeebrugge Entry Point]/[N/A]</u>
<u>Exit Point:</u>	<u>[Bacton Exit Point]/[Zeebrugge Exit Point]/[N/A]</u>
<u>Capacity Period:</u>	<u>[xxxxxxxx]</u>

Amount of Capacity allocated: [xxxxx] kWh/h

Allocation Reference: [xxxxx]

4. Approvals

IUK has the right to terminate this Capacity Transaction without liability to the IAA Shipper or any third party where IUK does not receive the approvals required to be granted by applicable Regulator(s) in relation to the Reshuffling Process or the Subscription Process under law or the Interconnector Licence.

Termination of this Capacity Transaction under this paragraph 4 shall not affect any other Capacity Transactions concluded by the Parties or the Agreement.

INTERCONNECTOR (UK) LIMITED

Signature _____

[Insert name of IAA Shipper]

Signature

4. Amend Section F as follows:

(a) Amend paragraph 4.2 as follows:

4.2 The Monthly Charge for a Month in a Gas Year shall comprise:

....

(p) the total Sold Back Capacity Payments for Gas Days in that Month calculated in accordance with paragraph 11;

(q) _____ any other rebates to be applied in respect of a Capacity Transaction or this Agreement.

(b) Insert a new paragraph 11 as follows:

11 Sold Back Capacity

11.1 For each Gas Day that IUK has bought back Capacity from an IAA Shipper pursuant to Section B paragraph 9, IUK shall pay to the IAA Shipper a Sold Back Capacity Payment in respect of such Sold Back Capacity.

2. **Amendments to the IUK Access Agreement**

Insert the following new definitions in paragraph 1.1 of Appendix B (Definitions and Interpretation):

“Reshuffled Capacity” has the meaning given in Section B paragraph 9.1 of the IUK Access Code;

“Reshuffling Process” has the meaning given in Section B paragraph 9.1 of the IUK Access Code;

“Reshuffling Rules” has the meaning given in Section B paragraph 9.2 of the IUK Access Code;

“Reshuffling Window” has the meaning given in Section B paragraph 9.1 of the IUK Access Code;

“Sold Back Capacity” has the meaning given in Section B, paragraph 9.1(a) of the IUK Access Code;

“Sold Back Capacity Payment” has the meaning given in Section B, paragraph 9.1(a) of the IUK Access Code;

ANNEX B

**VERSIONS OF IUK ACCESS AGREEMENT AND IUK ACCESS CODES SUBMITTED FOR
APPROVAL WITH RESHUFFLING DRAFTING AS PER ANNEX A INSERTED**

DRAFT