

August 2017

Dear Stakeholder,

Consultation on IUK's Access Terms

Interconnector (UK) Limited ("IUK") would like to hear stakeholders' views on its proposed changes to its Access Terms which include:

- The IUK Access Agreement ("IAA") which contains the general terms and conditions a shipper must satisfy to access Interconnector capacity. By signing this, parties agree to adhere to the IUK Access Code.
- The IUK Access Code ("IAC") details the access rules for IUK capacity acquired under the IAA.
- The System User Agreement ("SUA") contains the terms and conditions for the System User to access and use the IUK information and management system or its successor system.

1. Background

The IAA and the IAC were originally introduced to facilitate the sale of short-term capacity through day-ahead auctions of capacity under the mechanisms defined in the Congestion Management Procedures ("CMP"). IUK is now consulting on amendments to Issue 2 of the IAA and IAC, both of which became effective on 30 October 2015.

The IAA and the IAC have been running in parallel with the Standard Transportation Agreement ("STA") since 2015. IUK sold all of its technical capacity until 30 September 2018 under the STA: after this date the STA will expire and the only contract through which shippers may access IUK capacity will be the IAA.

2. Summary of Proposed Amendments to IUK's Access Terms

2.1 Responses to CREG feedback

IUK has included drafting to the Access Terms (IAA, IAC and SUA) to provide clarification and remedy concerns that were raised by our Belgian Regulator, CREG, when IUK first introduced the new contract in 2015¹. A summary of the key changes, in response to the CREG decision, is given below.

Clause 2: Invoicing, Payment and Credit Terms

The main changes to Clause 2 are to reflect the CREG concern that IUK had discretion over the treatment of unrated entities. This has been amended so that if an IAA Shipper is not rated, they will need to provide a 'Credit Support Amount' within a five day period (Clause 2.9(a) and Clause 2.13). Further to this, IUK will not be able to request a higher or lower amount than the Credit Support Amount, ensuring fair treatment across all IAA Shippers (Clause 2.9(b)(ii)).

¹ CREG Decision Letter <http://www.creg.info/pdf/Decisions/B1465EN.pdf>

Clause 5: Force Majeure

IUK has revised the definition of force majeure to remove reference to the likelihood of an event occurring, as CREG raised the point that this does not necessarily correspond with the notion of force majeure. IUK will also notify all IAA Shippers of a force majeure event at the same time (Clause 5.7(c)).

Clause 6: Suspension and Termination

Following the CREG feedback on Clause 6, IUK has amended the drafting to remove any discretion or risk of differential treatment of IAA Shippers by defining a fixed, shorter suspension period (Clause 6.1). Alongside this, IUK will have to specify a reason for the termination (Clause 6.5) and the new drafting gives the IAA Shipper more flexibility by providing a termination notice of at least 10 days (Clause 6.7).

Clause 7: Quality

Whilst there have been no material changes to Clause 7, the definitions ‘initial period’ and ‘enduring period’ have been introduced to provide a distinction between the gas quality regime until 1 October 2018 and from 1 October onwards, respectively. The drafting is such that the provisions given within the ‘enduring period’ will continue after 1 October 2018, whilst those under the ‘initial period’ will fall away.

Clause 8: Liability

CREG questioned the liabilities for loss of or physical damage to IUK’s property in the current drafting of Clause 8.1(a) and 8.2(a); the indemnities previously required have now been deleted. CREG also questioned why the maximum amount payable in Clauses 8.5 and 8.6 were not analogous with each other so this has been amended and the amount payable by the IAA Shipper and IUK is reciprocal.

2.2 Further Amendments

As required by CAM, IUK has included drafting in the IAC to introduce a capacity conversion service. The drafting allows an IAA Shipper who has successfully bid for annual, quarterly, monthly or daily bundled capacity to request to convert a matching quantity of existing unbundled capacity into bundled capacity. Other modifications to the IAC include updates to;

- Section B to provide a clearer definition of the contractual agreement that the IAA Shipper enters into;
- Sections D and F, changes the way that IAA Shippers are invoiced with reference to the treatment of Fuel Gas, HV Electricity and Shrinkage;
- Section I, on Interruptions and Constraints, to provide further clarification on the process.

2.2.1 Introduction of Implicit Allocation

IUK has included drafting in the IAC to allow for the concept of an Implicit Allocation Mechanism (“IAM”). IUK is holding a separate consultation on the proposed introduction of an Implicit Allocation Mechanism. Appendix 1 contains an example of how the Implicit Allocation Rules may look. These will be fully developed before capacity is offered through Implicit Allocation and published on our website. They will be updated from time to time to contain the latest information.

3. Your Feedback

We are interested in hearing your views on the proposed amendments to our Access Terms and would welcome your responses to a number of specific questions:

1. Do you agree with the proposed drafting included to address the concerns raised by CREG in their Decision Letter (dated 8 October 2015)?
2. Do you agree with drafting included to facilitate the introduction of a Capacity Conversion Service?
3. Do you agree with the changes to the treatment of Fuel Gas, HV Electricity and Shrinkage?
4. Do you have any comments on the proposed drafting amendments to the IAC to accommodate the introduction of an Implicit Allocation Mechanism?

Please feed any comments not relating to the legal drafting directly into the separate Implicit Allocation Consultation.

We would appreciate comments from all interested parties. Please send your response to consultation@interconnector.com by 17:30 UKT on 7 September 2017.

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 3621 7816 to discuss.

Please note that this consultation does not commit or bind IUK to the proposed changes.

We look forward to hearing from you.

Yours sincerely,

DANIELLE STOVES
Commercial Manager

Appendix 1: Implicit Allocation Rules applicable from [X January 2018]



**Implicit Allocation Rules
applicable from [X January 2018]**

Non-Binding Example for Consultation
Subject to legal review and subject to contract

1. Introduction

These are the Implicit Allocation Rules referred to in paragraph [1.6] of Section B of the IUK Access Code. These rules will be valid from [X January 2018].

2) Designated Person for Implicit Allocation of Offered Capacity

IUK shall designate [XXXX] to implicitly allocate Offered Capacity when IUK makes Offered Capacity available under an Implicit Allocation Mechanism.

3) Capacity Products

IUK may make Offered Capacity available for sale through an Implicit Allocation Mechanism at each Entry Point and each Exit Point within the IUK Transportation System.

All Offered Capacity which is made available for sale through an Implicit Allocation Mechanism will be unbundled.

a) Marketing of Offered Capacity

IUK will inform [XXXX] of the following information which will be presented by [XXXX] in a clear and easily accessible manner to any potential customer;

- i. the amount of Offered Capacity made available for sale through the Implicit Allocation Mechanism each Gas Day;
- ii. whether such Offered Capacity is Entry and/or Exit capacity, the Class of the capacity and the Entry Points and/or Exit Points at which such capacity has been made available;
- iii. the Capacity Products available for purchase and timing restrictions (as defined in Table 1);
- iv. the price at which [XXXX] is to offer the Offered Capacity at; and
- v. such other information that IUK determines is appropriate.

IUK will also publish these details on www.interconnector.com each gas day.

b) Product Periods

IUK may make the following Capacity Products available for sale through an Implicit Allocation Mechanism. As per Table 1, prior to a standard auction on the joint booking platform, PRISMA, IUK will withdraw the relevant Offered Capacity from being available for sale through an Implicit Allocation Mechanism whilst it was advertised and offered on PRISMA.

Product length	Offered through Implicit Allocation	Auction Publication on PRISMA, capacity not offered through Implicit Allocation	Auction Start on PRISMA
Annual	Any time during the 15 years in advance of the period (can cover any 4 quarters including gas year or calendar year)	4 weeks before Auction Start	1 st Monday of July for following 15 Gas Years
6 monthly	Any time during the 3 years in advance of the period (can cover any 2 quarters)	4 weeks before Annual Auction Start	n/a
Quarterly	Any time during the 2 years in advance of the period	2 weeks before Auction Start	1 st Monday of August for Q4, Q1, Q2, Q3; Nov

			for Q1, Q2, Q3; Feb for Q2, Q3; May for Q3
Monthly	Any time during the 6 months in advance of the period*	1 week before Auction Start	3 rd Monday of each month for next month
Daily	Any time after Monthly auction on PRISMA	At Auction Start	15:30 UKT / 16:30 CET day before

* in advance of the CAM NC annual auctions in July, the monthly products for the following gas year will only be offered to a maximum of 40% to limit potential impact on annual availability in the auctions on PRISMA. This affects capacity offered for October, November and December.

c) Matched Product

IUK Offered Capacity must be sold by [XXXX] at or around the same time as a matching quantity of Natural Gas for a matching period of time;

- i. The purchase of the Natural Gas Product must be made between a client of [XXXX] and the IAA Shipper and shall be physically settled at a specified price.
- ii. The Offered Capacity must match the quantity and period of the Natural Gas Product.
- iii. Together the Offered Capacity and the Natural Gas Product form a “Matched Product”.

IUK has no knowledge of the Natural Gas transaction, but the Natural Gas product may be purchased at a different delivery point or hub to the Offered Capacity.

Only IAA Shippers may request to purchase a Matched Product from [XXXX].

4) Purchasing Process of a Matched Product from [XXXX]

To purchase a Matched Product from [XXXX] the purchasing Shipper must be an IAA Shipper, must be party to all the necessary contractual provision of service agreements requested by [XXXX] and must have all the required authorisations, licences consent and/or permits to carry out the purchase.

The IAA Shipper may submit an order to [XXXX] for Offered Capacity, specifying the amount of Offered Capacity, the Entry Point or Exit Point, the Capacity Period and the price. The making of an order is binding on the IAA Shipper and cannot be withdrawn or changed.

At or around the same time as concluding the over the counter transaction [XXXX] shall implicitly allocate a matching quantity of Offered Capacity to the IAA Shipper.

The agreements between the IAA Shipper and [XXXX] shall govern all communications between them, including the process for submitting and confirming an order and any errors, corrections or disputes in relation to such order or transaction of a Matched Product.

5) Notification and Allocation

[XXXX] will confirm with the IAA Shipper and to IUK the following information following the allocation of a Matched Product [in writing/email/phone]:

- i. the amount of Offered Capacity purchased;
- ii. the Class;
- iii. the Entry Point or Exit Point;
- iv. the Capacity Period; and
- v. the Implicit Allocation Capacity Price.

IUK has no visibility of the Natural Gas Transaction and such transaction shall be subject to the terms and conditions of a separate contract between the IAA Shipper and the client of [XXXX]. The cancellation, termination or breach of the contract for such transaction shall not affect the Capacity Transaction for Offered Capacity purchased through an Implicit Allocation Mechanism.

The confirmed allocation of the Offered Capacity will be entered into the IUK Information System and shall result in a Capacity Transaction under Section B of the IUK Access Code in respect of which the IAA Shipper is liable to pay Capacity Charges at the Implicit Allocation Price.

6) Market Conduct

The IAA Shipper shall not submit an order or a series of orders for Matched Products that would constitute or that may be interpreted as constituting market manipulation, attempted market manipulation or market abuse for the purpose of Regulation (EU) 1227/2011 on wholesale energy market integrity and transparency.

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