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All Stakeholders

28 October 2021

Dear Stakeholder,

Consultation on Interconnector's Access Terms and Charging Methodology

Interconnector Limited ("**Interconnector**" or "**INT**") would like to hear stakeholder's views on its proposed changes to the Interconnector Access Terms and to the Interconnector Charging Methodology ("**CM**").

This consultation letter outlines a summary of the proposed changes to the Access Terms and CM. The accompanying attachments outline the specific changes proposed to these documents.

1. Introduction

Interconnector's Access Terms include:

- The Interconnector Access Agreement ("**IAA**") which contains the general terms and conditions to access Interconnector capacity. By signing this, parties agree to adhere to the Interconnector Access Code.
- The Interconnector Access Code ("**IAC**") which details the access rules for INT capacity acquired under the IAA.
- The IAA Summary ("**IAAS**") which describes the transportation model and related services offered by INT under the IAA. Whilst this document does not give rise to any contractual relationship between INT and any other party for the provision of services by INT, it is approved by INT's National Regulatory Authorities ("**NRAs**").

The Interconnector CM sets out the methodology that Interconnector applies to charging for its transportation services under the IAA and IAC.

2. Background

Interconnector is required by its governing rules to review its Access Terms and its CM at least once every calendar year. The Access Terms and CM are approved by both Ofgem[1], the GB NRA and by CREG[2], the Belgian NRA. INT's current Access Terms and CM were approved by both NRAs following a consultation in 2019.[3]

[1] Ofgem: The Office of Gas and Electricity Markets, https://ofgem.gov.uk
[2] CREG: La Commission de Régulation de l'Electricité et du Gaz, https://www.creg.be
[3] https://www.fluxys.com/en/products-services/empowering-you/customer-interactions/consultations-in-the-uk/2019---annual-review-of-iuk-access-terms

3. Summary of Proposed Amendments to Interconnector's Access Terms

Annex 1 outlines the proposed changes to the IAA. Annex 2 outlines the proposed changes to the IAC. As outlined in these annexes, in addition to some minor tidying up changes, INT is proposing:

3.1 Enhancements to Interconnector's Implicit Allocation Mechanism

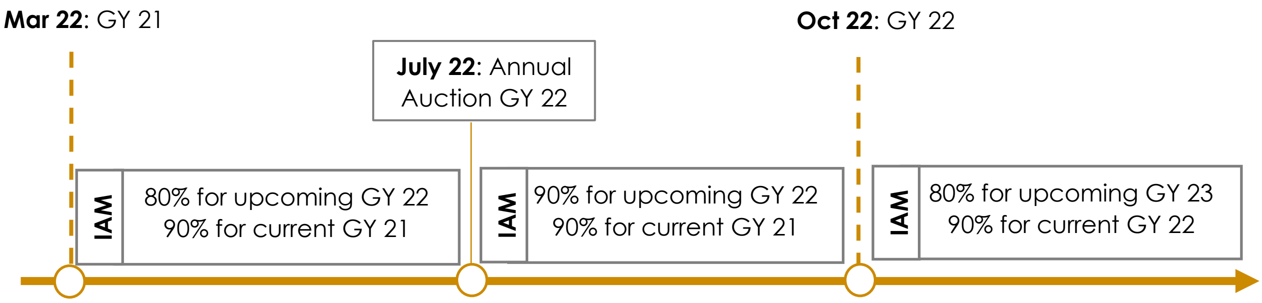
Increase the amount of capacity offered through Implicit Allocation

Interconnector's Implicit Allocation Mechanism ("**IAM**") provides its Shippers with a more flexible option for booking capacity, and for acquiring bespoke products which better match their demand. The benefits of IAM are evident, as indicated by Shippers making over 90% of their bookings for INT capacity, over the past Gas Year, via IAM compared to PRISMA.

Based on this positive feedback, Interconnector is proposing to increase the amount of capacity that can be offered through the IAM from a maximum cumulative total of 75% to 90% of firm or conditional firm capacity.

Interconnector is proposing that this increase would be incremental. As such, ahead of the capacity auction in Gas Year Y for an annual capacity product for Gas Year Y+1 Interconnector would make up to 80% of its capacity for Gas Year Y+1 (and beyond) available via IAM. After the close of this auction, Interconnector would then make up to 90% of its capacity available for any Gas Day within that Gas Year Y+1 via IAM. This is shown in the below illustration:

Illustration 1: Example IAM Capacity Offering



By following the proposed structure, Interconnector continues to meet the obligations outlined in Article 8 of the CAM NC[4] regarding the requirement to set aside capacity for the shorter term auctions - 20% reducing to 10% following the close of the annual capacity auction - whilst providing its Shippers with increased flexibility and optionality which ultimately improves market efficiency.

Reduction to the IAM suspension period

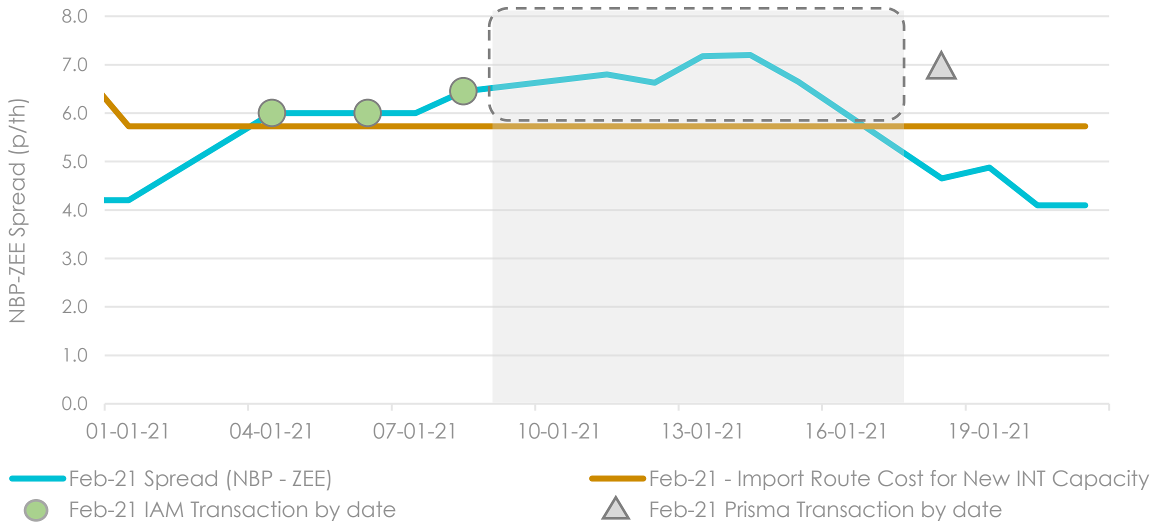
A key benefit of IAM is the ability to react to market opportunities as and when they arise. This benefit however is being directly impacted by the obligation to suspend all capacity offerings for a period of time ahead of each CAM NC capacity auction. During these 'suspension periods', (four weeks for an annual auction, two weeks for a quarterly auction and one week for a monthly auction) Interconnector is unable to offer capacity products which cover the period offered in that auction, despite potential market interest. This means that where market

[4] Regulation (EU) 2017/459 of 16 March 2017 establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) No 984/2013 Regulation (EU) 2017/549: https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32017R0459

opportunities arise during the suspension periods, they cannot be captured, hindering cross border trade.

Over the past year, there have been several instances where this has occurred. Chart 1 shows an example from January 2021 where the month ahead (February) NBP-ZEE spread rose, on average, to 0.78p/th above the required cost to flow into Great Britain via the Interconnector. Whilst the NBP-ZEE spread signalled a market requirement for Interconnector capacity, the nature of the suspension periods meant that no capacity could be marketed. This directly impacts the market, hindering cross border trade, and may lead to Shippers taking more expensive, suboptimal positions to the detriment of market efficiency and consumer interests.

Chart 1: February Monthly Capacity Product – NBP-ZEE Spread vs. Route cost for realised bookings



Based on this, Interconnector is proposing to reduce the capacity publication window ahead of each PRISMA[5] Auction. This will further facilitate cross border trade by maximising the availability of Interconnector capacity products to the market and reduce the risk of Shippers being unable to react to changing market conditions. It will also help Interconnector compete more fairly with other flexibility providers[6] (who do not have any such suspension period limitation).

Interconnector is therefore seeking approval from its NRAs to dis-apply Articles 11.8, 12.6 and 13.6 of the CAM NC for capacity offered via the IAM. Interconnector would instead publish its final submission for the Capacity Auctions two days in advance, after the close of business on Friday.

Table 1: Proposed amendment to the IAM suspension windows

Auction Product Duration	Current Lead Time	Proposed Lead Time
Monthly	1 week	2 days
Quarterly	2 weeks	2 days
Annual	4 weeks	2 days

[5] https://www.prisma-capacity.eu/
[6] i.e. Storage, LNG and upstream production.

3.2 Introduction of a Supplementary Commodity Charge

Interconnector is proposing to introduce wording into the IAC to support the introduction of a supplementary commodity charge. This charge would only be payable where INT Shippers elect to use a differentiated, supplementary service offered by Interconnector.

Interconnector is proposing this change now in order to provide a carbon neutral transportation service in future which will be achieved through the offsetting of the emissions associated with the gas flow through the Interconnector System. As this offsetting service would be based on the volume of gas transported, the associated costs would be levied through the use of a flow based and cost reflective mechanism.

This supplementary commodity charge would be applied to the Shipper's Entry allocations for each Gas Day only where the service has been requested by the Shipper. Where such a service is offered, Interconnector will outline the offering in the Interconnector Charging Statement.

3.3 Amendment to the Planned Maintenance Notification Process

Interconnector currently announces the date and duration of its annual maintenance shutdown (long term maintenance) for the upcoming Gas Year by the end of the preceding September. Increasingly, Interconnector sees that this approach does not fit with the actual process of scheduling a maintenance shutdown period.

Interconnector is proposing to amend the process through which long term maintenance is announced to the market to better align with market practice amongst other TSOs and better reflect procurement and planning processes.

Interconnector proposes to publish a draft schedule ahead of the calendar year in which the long term maintenance will occur. This schedule will detail the month that the maintenance will take place. The final dates and duration of the long term maintenance will then be announced to the market at least forty-two (42) days in advance of the maintenance commencing. This is in line with the requirements of Annex 1 paragraph 1(9) of Regulation 715/2009, as amended by UK SI 2018/1286 and 2019/530 for the UK.

3.4 Amendment to the Credit Support Process

Interconnector is also is seeking to amend its credit support provisions to increase its alignment with the standard practice of TSOs. This will be achieved through two changes:

1. Where applicable, Shippers will be asked to provide credit support for thirty (30) days after their registered capacity ends in order to fully cover the invoicing and payment period.
2. Where a Shippers' exposure is being used to calculate the required level of credit support, this will be calculated against three (3) months' worth of charges rather than two (2).

3.5 Alignment with the future GB Gas Quality Specifications

The GB gas industry and authorities are currently discussing proposed changes to widen the gas quality specification. In order to be well prepared and avoid any possible barrier to cross border trade when the GB specification formally changes, Interconnector is proposing to introduce a lower Wobbe index limit of 46.62 MJ/ m^3 (at 15/15 reference conditions as used in GB by National Grid Gas ("**NGG**")) into the Exit specification from the NGG National Transmission System and entry into the Interconnector Bacton Entry. This proposed adjustment would be within the operating limits of the Interconnector System, and only be effective subject to agreements with the adjacent operators NGG and Fluxys Belgium.

3.6 Compatibility with the Interconnector Storage Service

In parallel to this consultation, a consultation is also being held on the introduction of an Interconnector storage service which would be offered through a separate contractual agreement referred to as the Storage Services Agreement ("**SSA**").

To ensure consistency and compatibility of the SSA with the Access Terms, Interconnector is proposing to make some minor amendments to the Interconnector Access Terms, such as the inclusion of relevant terminology from the SSA.

4. Summary of Proposed Amendments to Interconnector's Charging Methodology

Annex 3 outlines the proposed changes to the CM. As outlined in this Annex 3, in addition to some minor tidying up changes, INT is proposing:

4.1 Removal of the Initial Registration Fee

The Initial Registration Fee enables INT to apply a charge for any new Shippers signing an IAA. This was designed to contribute to legal, administrative and training costs in the sign up. In practice, the fee has been zero for a number of years and INT proposes to remove the charge altogether.

4.2 Introduction of a Supplementary Commodity Charge

In line with the proposals outlined in section 3.2 above, Interconnector is also proposing to introduce wording into the CM to support the introduction of a supplementary Commodity Charge. This charge would only be payable where INT Shippers request the relevant service.

4.3 Amendment to the tariff publication lead time for short term products via Interconnector's Implicit Allocation Mechanism

Since the implementation of Interconnector's IAM, the product offering has evolved, with a wider range of short term services being offered to the market to better match with the products offered on the commodity market.

As these shorter products were not originally offered by Interconnector via IAM, the CM does not specifically account for the tariff publication of within month IAM products.

This becomes relevant where Interconnector amends its short term tariffs as there is a misalignment between the notification period of short term product prices offered on PRISMA (which is at least six hours in advance of daily auction) compared to those offered via IAM (which is at least a day in advance of the offering).

Interconnector is seeking to rectify this and proposes to allow the tariffs for IAM products, which are less than one month in duration, to be published at least six hours in advance of the relevant offering.

4.4 Amendment to the tariff publication lead time for quarterly capacity products offered via PRISMA

Interconnector is proposing to amend its PRISMA quarterly capacity reserve price publication requirements to enable better alignment of tariffs for offered quarterly products regardless of which sales channel is utilised. Currently the INT quarterly reserve prices for capacity offered via PRISMA are fixed thirty days ahead of the annual capacity auction. This means Interconnector is not able to adjust these tariffs in response to changing market conditions unlike quarterly products sold via the IAM. This can create a preference to utilise one sales channel over the other, and potentially create different tariff offers for the same capacity duration simply due to the sales channel. Interconnector is proposing that the reserve price of quarterly capacity offered via the auctions on PRISMA will be published at least one week in advance of the relevant auction. This will bring it in line with the IAM publication obligation which is working successfully.

4.5 Amendment to the tariff publication lead time for monthly capacity products offered via PRISMA

As with the change proposed in section 4.2, Interconnector is seeking the ability to amend its PRISMA monthly capacity product reserve price publication requirements to enable better alignment of offered monthly tariffs regardless of which sales channel is utilised.

Currently the INT monthly reserve prices for capacity offered via PRISMA must be published two weeks before the relevant auction compared to at least a day ahead of the sales offering under the IAM. This means that, unlike for monthly capacity products offered via the IAM, Interconnector is not able to adjust its monthly tariff for capacity offered via the auctions on PRISMA in response to changing market conditions. This can create a preference to utilise one sales channel over the other, and potentially create different tariff offers for the same capacity duration simply due to the sales channel. Interconnector is therefore proposing that, for the monthly capacity products offered via the auctions on PRISMA, the reserve price will be published at least a day in advance to bring it in line with the IAM publication obligation which has been working successfully.

5. Your Feedback

We would appreciate comments from all interested parties. Please send your response to consultation@interconnector.com by 17:30 UKT on 28 November 2021.

Following this stakeholder consultation, Interconnector will review the responses with the aim to submit final proposals to Ofgem and CREG by the end of the year. Subject to NRA approval the amended Access Terms and the Interconnector Charging Methodology would be effective sometime in Q1 2022.

As noted earlier, Interconnector is also consulting in parallel on the introduction of an additional Storage Service to be offered during periods of low transportation activity. Any comments regarding the implementation of the Interconnector Storage Service should be provided separately as part of the SSA consultation.

Please ensure that a "read receipt" is requested to confirm that your response has been received by Interconnector. Please note that any responses not marked confidential may be published on Interconnector'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 Sarah Cooper on +44 (0) 20 3621 7856 or sarah.cooper@interconnector.com or Pavanjit Dhesi on +44 (0) 7866 620 832 or pavanjit.dhesi@interconnector.com.

We look forward to hearing from you.

Yours faithfully,

Sarah Cooper
Commercial Manager