

Interconnector Limited

4th Floor · Burdett House
15-16 Buckingham Street
London · WC2N 6DU · UK
T +44 20 3621 7800
www.interconnector.com

 @_interconnector

All Stakeholders

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Dear Stakeholder,

Consultation on Interconnector's Storage Service

Interconnector Limited ("**Interconnector**" or "**INT**") is pursuing the implementation of a short term, fast cycle Storage Service as a secondary service to its Transportation business.

In this consultation we are seeking your views on the introduction of a Storage Services Agreement ("**SSA**") under which Interconnector would offer its Storage Service.

This consultation is divided into 4 parts:

- Part 1 sets out the background for offering this service;
- Part 2 sets out our model for a Storage Service;
- Part 3 summarises the additional ongoing regulatory processes; and
- Part 4 sets out the timetable for implementation and how you can provide feedback.

There are four appendices to this Consultation Letter which have been provided for information purposes only:

- Appendix 1 provides Interconnector's legal analysis in regard to introducing a Storage Service under the current regulatory framework.
- Appendix 2 contains the SSA Summary document to assist stakeholders in their review of the SSA.
- Appendix 3 contains a draft SSA Charging Statement to outline the proposed charging structure for the Storage Service.
- Appendix 4 includes a study completed by Baringa Partners which outlines the benefits to the GB market and GB consumers of Interconnector offering such a Storage Service.

PART 1. BACKGROUND INFORMATION

Since the start of operations in 1998, Interconnector has consistently delivered significant benefits to both GB and European consumers. The strategic gas infrastructure link provides GB with access to continental supply sources as well as destination markets for GB exports.

The market conditions under which Interconnector operates can vary considerably year on year. There are periods where Interconnector's physical flows are high and other periods where physical flows through the pipeline are low, and where the flexibility of the pipeline and terminal infrastructure go unused. As a merchant operator it is crucial that Interconnector seeks to develop market-based services which support the financial viability of the company. Ensuring the asset is used more efficiently will help support the significant costs associated with operating the asset safely and maintaining a high degree of availability and reliability, where regulatory or consumer underwriting is not in place.

Interconnector is therefore proposing the introduction of a Storage Service which will allow the space within the pipeline to be utilised when the market demand for gas transportation is low.

Interconnector is an independent and fully ownership unbundled operator and will offer all the capacity it makes available under the proposed Storage Service to the market. This is in line with Interconnector's current business model for its Transportation services which is negotiated Third Party Access ("**nTPA**"). Interconnector is therefore not seeking an exemption from this regime for its proposed Storage activities nor a minor facility exemption from Gas Act Section 19B as several other GB Storage Facilities have.

Benefits

The Interconnector Storage Service will be delivered to the GB market through the use of the existing asset base. This means that Interconnector can maximise the utilisation of its existing infrastructure and also promote greater utilisation of the National Transmission System ("**NTS**"). As there is no additional infrastructure or investment required by either Interconnector or National Grid ("**NG**"), the added benefits of the service can be recognised almost immediately by GB consumers without the requirement for consumer or regulatory underwriting.

With regard to the specific product offering, the short term nature of the Interconnector Storage Service means it will complement, rather than compete with, the current storage services available to the GB market, enhancing optionality and helping to improve market functioning.

The flexible and responsive nature of the service not only allows Interconnector to continue to prioritise Transportation flows, but also creates opportunities for Storage Users to capture short term time spreads and accommodate short term fluctuations in the market or their own portfolio, helping to reduce balancing costs and promoting efficient use of the NTS. This mitigation or softening of short term supply shocks also has positive impacts on security of supply and may potentially alleviate any ensuing short term network costs.

PART 2. INTERCONNECTOR STORAGE SERVICE

Storage Services Agreement

Interconnector will offer its Storage Service under the SSA that is being reviewed in this consultation and contains the specific and contractual terms for the service. The SSA has been developed in accordance with the Gas Regulation¹, the commercial access regime as set out in the Gas Act² and Petroleum Act³, as well as following the guidance published by Ofgem for Storage Operators⁴. INT will submit the SSA to Ofgem for review following the close of this stakeholder consultation.

The SSA has been split into two sections; Appendix A which contains the General Terms and Conditions, and Appendix B and the Schedules which cover the Operational and Commercial Provisions of the service. Interconnector is proposing that changes to either section will be subject to a 30 day consultation period. Where a Storage User may not agree with the proposed changes to Appendix A, Interconnector will allow that User to continue to use any pre-contracted capacity, however any new services would only be available under the revised agreement. It is crucial that the commercial and operational rules are applied in the same manner across all Storage Users, therefore all Storage Users will be required to adhere to the latest version of Appendix B and the Schedules of the SSA. This is addressed in the Variations Protocol which forms part of the SSA.

Only Storage Users who sign up to the SSA will be eligible to purchase Interconnector Storage Capacity. To register as a Storage User, a party will need to successfully complete the Interconnector 'Know Your Customer' process.

Storage Users will need to demonstrate creditworthiness to Interconnector in the form of a long term debt rating of at least BBB+ from Standard and Poor's / Fitch or Baa1 from Moody's or through the provision of credit support before Storage Capacity can be purchased.

The SSA is an independent agreement, therefore if a party is already signatory to the Interconnector Transportation Access Terms this does not mean they are eligible to purchase storage services offered under the SSA (or vice versa).

Interconnector has also published a Storage Services Agreement Summary ("**SSAS**") (Appendix 2) as part of this consultation which provides an overview of the key terms and conditions discussed in the formal SSA. The SSAS is for information purposes only.

Service Description

INT intends to offer a Storage Service where Transportation bookings ahead of the Gas Day sit below 60% of the technical capacity of the Interconnector system in either flow direction. A maximum of 100GWh of Storage may be offered on any given gas day. Interconnector will adjust the Storage Capacity offered each day in order to ensure that it continues to deliver efficient and reliable transportation services. To make this decision, Interconnector will assess the current operating conditions as well as the realised and anticipated Transportation bookings. In any case, the volume offered will not exceed the physical capabilities of the Interconnector system.

The Storage Service will make use of the variable inventory capability of the Interconnector system and therefore the service will be readily available, without any additional investment.

¹ Regulation (EC) 715/2009 as amended by UK SI 2018/1286 and 2019/530

² Gas Act 1986 as amended from time to time

³ Petroleum Act 1998 as amended from time to time

⁴ <https://www.ofgem.gov.uk/publications/guidance-regulatory-regime-gas-storage-facilities-great-britain-version-2>

The service will be accessible via the GB National Transmission System ("NTS") only. Injection of gas under the Interconnector Storage Service will only be permitted at the Interconnector Bacton Entry Point and withdrawal of gas will only be permitted at the Interconnector Bacton Exit Point.

Storage capacity will be offered in Standard Bundled Units ("SBUs") consisting of;

- a) Injection Capacity to deliver gas into the Interconnector system;
- b) Space to store gas within the system;
- c) Withdrawal Capacity to remove gas from the Interconnector system.

Interconnector will offer both Firm and Interruptible Capacity products to the market. These will be structured as follows:

a) A Within Day, Interruptible Product

The product will consist of Injection Capacity for the remainder of the current Gas Day and Withdrawal Capacity for use on the following Gas Day. The Storage User will obtain the right to store gas from the moment of injection, until the close of the following Gas Day.

This Storage Capacity will be offered in addition to the capacity offered via the Within Day Transportation Auctions on PRISMA.

Interconnector will have the right to interrupt the injection of gas and prevent the Storage User from adding to the volume in Storage. One example of such an interruption would be transportation flows increasing within day to exceed 60% of the technical capacity. Any gas already in Storage would retain its rights to be withdrawn on the following Gas Day.

b) A Firm, Within Day Product

In addition to the Within Day Interruptible Product, Interconnector will also offer a small volume of the available Storage Capacity as a Firm service to the market. The actual volume of which will also be dependent on the level of Transportation bookings and the current operating conditions.

These services will be marketed during a First Come First Serve ("FCFS") window at 16:30 UKT.

The timing of the FCFS window falls ahead of the relevant Transportation Within Day auction, allowing the Storage User to acquire National Grid capacity with the same product start time.

This also means that Interconnector will have first offered all of its available technical capacity in the Daily Transportation Auction ahead of the capacity being offered via the Storage Service.

As the Interconnector Storage Service will be accessed via the same physical connection point at Bacton as the Interconnector Transportation Service, the physical setup and therefore the treatment of capacity on the National Grid side of the Bacton point will remain unchanged, with 100% of this capacity remaining on offer as Transportation Capacity.

Operating Model

In order to have a clear record of how the Interconnector system is being used, Interconnector Users will nominate into either an Interconnector Storage or an Interconnector Transportation

Account. The accounts will operate under clear, separated contractual arrangements (the SSA for Storage and the Interconnector Access Agreement (“**IAA**”) for Transportation).

Storage Nominations made under the Storage User’s Storage Account will be matched with the respective Entry and Exit nominations on the NTS and Interconnector will provide National Grid with a Storage Allocation Statement for both the NTS Entry and NTS Exit allocations. As is the case currently, gas flows into and out of the pipeline will be physically measured.

This setup provides a simple and effective way for Interconnector to offer a supplementary Storage Service without impacting its ability to meet its Transportation obligations, whilst for National Grid it means they can correctly identify whether the capacity has been utilised to support an Interconnector Transportation allocation or an Interconnector Storage allocation.

Interconnector will publish data on its Electronic Data Platform showing: the technical, contracted and available capacity of the storage facility; the amount of Gas in store at the end of each Gas Day; the Injections and Withdrawals for each Gas Day; and any planned or unplanned maintenance. National Grid will also publish this information on an aggregate level.

Storage Charging Statement

As part of this consultation Interconnector has provided an example of the Storage Charging Statement for information only (Appendix 3). The Storage Charging Statement outlines the various cost components which will apply to Storage Services offered by Interconnector.

Storage Users will pay a pre-determined, flat capacity charge for each SBU. A charge will also be applied to recover the costs of fuel gas and electricity consumption in relation to the Injection and Withdrawal of gas into/from the system.

PART 3. CURRENT STATUS

The introduction of a storage service within an Interconnector requires a modification to the Uniform Network Code ("**UNC**") governing the terms of access to National Grid's National Transmission System. The regulatory process to facilitate such a service was initiated by National Grid in March 2021 through the introduction of UNC Modification 0761.

The modification seeks to establish:

- a) the necessary commercial arrangements to enable the offer of an additional storage service within an Interconnector; and
- b) equal access for Interconnector Storage Users by applying the same terms as existing GB Storage services.

To achieve the first point, a new 'dual purpose' point will be established within the UNC to allow Users to access both Transportation and Storage Services, provided by a physically bidirectional interconnector, via the same physical connection point. This means that the physical setup and therefore treatment of capacity on the National Grid side of the NTS connection point (in this case, Bacton) will remain unchanged, with 100% of the capacity remaining on offer as Transportation Capacity. Allocating a fixed volume of National Grid Bacton Exit or Entry capacity towards Interconnector's Storage Service would be inefficient as the Storage offered will vary each day, depending on operating conditions.

As no distinct capacity product will be made available on the National Grid system at the Bacton Exit or Entry points, the modification seeks amendments to ensure that Users of an Interconnector Storage Service are not subject to 'double charging' on the NTS and instead are eligible for the Specific Capacity Discount which is available against flows into/out of other GB Storages connected to the NTS. This offers Storage Users an 80% discount against the relevant Transmission Services Capacity Reserve Price and the Revenue Recovery Charge rate (if any), as well as an exemption from the General Non-Transmission Services charge applied by National Grid.

The mechanism proposed ensures that only the National Grid capacity which is used against an Interconnector Storage Service is eligible for the discount. This is achieved through the application of the lesser of rule which assesses the levels of booked capacity at the connection point vs. actual storage allocations.

A stakeholder consultation on this UNC Modification 0761 is currently ongoing.⁵

⁵ Consultation documents available here: <https://www.gasgovernance.co.uk/0761>

PART 4. TIMELINE AND FEEDBACK

Below is an indicative timeline that we propose to follow for this consultation and the subsequent introduction of the Storage Services. Please note, this consultation does not commit or bind Interconnector to introduce a Storage Service. The implementation of the Interconnector Storage Service is contingent on the approval of the UNC Modification 0761.

The SSA has been developed in line with the same regulatory framework as the access terms for other GB Storage Operators as well as by using the Ofgem guidance for Storage Operators. As per the guidance, Interconnector has arranged a one (1) month stakeholder consultation on its SSA. Following the completion of the consultation, Interconnector will review the feedback before issuing the SSA to Ofgem for its review. In line with its guidance (paragraph 2.61), no formal approval is required from Ofgem however Interconnector will consider any feedback provided. Interconnector will publish the final version of the SSA on its website at least one (1) month in advance of its implementation.

Element	Required Time	Estimated Start	Estimated End
UNC Modification 0761 Process			
NGG Mod 0761 Work Groups	6 months	1 Apr 21	7 Oct 21
NGG UNC Mod 0761 Consultation	15 days	22 Oct 21	19 Nov 21
Final 0761 Report & Mod Panel Decision	1-2 weeks	19 Nov 21	17 Dec 21
Ofgem Decision on UNC Mod 0761	-	17 Dec 21	Mar 22 onwards
Implementation of the SSA			
Consultation on the Transportation Access Terms and the SSA	1 month	Oct 21	Nov 21
Ofgem Review of SSA	1 month	Nov 21	Dec 21
Ofgem Response on the Transportation Access Terms	3 months	Nov 21	Feb 22
Notice Period for the Transportation Access Terms and SSA	1 month	Feb 22	Mar 22
Earliest Implementation	March 2022		

We would appreciate comments from all interested parties on the Interconnector Storage Services Agreement. We would also welcome your views on the attractiveness of the products we are proposing to offer under the Interconnector Storage Service as well as suggestions for further options. Please send your response to consultation@interconnector.com by 17:30 UKT on 28 November 2021. As noted earlier, Interconnector is also consulting in parallel on changes to the Interconnector Access Terms and Charging Methodology for the transportation activities. Any comments related to the IAA and CM consultation should be provided separately.

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 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

APPENDIX 1. LEGAL ANALYSIS

This section provides an overview of the analysis completed to ensure that the proposal for Interconnector to offer a Storage Service is allowed for and compliant under the current regulatory framework. It will look at the definitions pertinent to the offering, the licensing of Interconnector and the current market access rules.

Definitions

There are two definitions which are of relevance when considering the implementation the Interconnector Storage Service, both of which accommodate the provision of such a service:

i. Interconnector

The prevailing definition of an interconnector indicates that an interconnector may provide services other than Transmission.

The below definition is taken from the Gas Regulation⁶ :

“interconnector”

(a) in relation to Great Britain, means a transmission line which crosses or spans a border between Great Britain and a member State, or between Great Britain and Northern Ireland, for the sole or main purpose of connecting the transmission systems of those countries or territories;

Although section 5(8) of the Gas Act⁷ sets out a similar definition of interconnector, post Brexit, the Gas Regulation (which is retained in domestic UK law⁸) definition of “interconnector” prevails over the definition set out in the Gas Act⁹.

ii. Storage Facility

The below is the prevailing definition of a Storage Facility as per the Gas Regulation:

“storage facility”

means a facility used for the stocking of natural gas and owned or operated by a natural gas undertaking, including the part of LNG facilities used for storage but excluding the portion used for production operations, and excluding facilities reserved exclusively for transmission system operators in carrying out their functions;

The latter half of the definition beginning “excluding facilities reserved...” refers to Storage Facilities which are reserved for the sole use of a Transmission System Operator (“TSO”) to carry out balancing and system stability actions, meaning that the Storage Facility is not available for third party use. This is confirmed in the interpretive note published by the European Commission.¹⁰

⁶ Regulation (EC) 715/2009 as amended by UK SI 2018/1286 and 2019/530

⁷ Gas Act 1986 as amended from time to time

⁸ Pursuant to section 3 of the European Union (Withdrawal) Act 2018

⁹ Sections 5(1) to 5(3) Of the European Union (Withdrawal) Act 2018.

¹⁰ https://ec.europa.eu/energy/sites/ener/files/documents/2010_01_21_third-party_access_to_storage_facilities.pdf

Interconnector Limited does not require the exclusive use of the Storage Facility for carrying out its business and so, as discussed in Part 2 of this consultation letter, will make its services available to third parties.

Licensing

As the owner and operator of an asset used as an interconnector, Interconnector Limited holds a Gas Interconnector Licence. This licence contemplates that interconnectors may offer services other than transportation, including the provision of storage. This is by virtue of Standard Licence Condition 6 which requires an interconnector to keep separate accounts for the various activities undertaken;

"The licensee shall, in their internal accounting, keep separate accounts for each of their gas activities: interconnection; transmission (in the instance of an integrated transmission system, this will also include interconnection activities); distribution; storage;"

The Interconnector Storage Service will be operated by Interconnector Limited, with clear separation between transportation and storage accounts, as well as separate contractual terms. Similar regimes are in place in other European countries, where the same company provides both transportation and storage services.

Exemption Regime under the Gas Act

Section 5.1 of the Gas Act outlines the activities that must be authorised by a licence. The activities that require a licence are as follows;

- "(a) otherwise than by means of a gas interconnector conveys gas through pipes to any premises, or to a pipe-line system operated by a gas transporter;*
- (aa) participates in the operation of a gas interconnector;*
- (b) supplies to any premises gas which has been conveyed to those premises through pipes;*
- (c) arranges with a gas transporter for gas to be introduced into, conveyed by means of or taken out of a pipe-line system operated by that transporter; or*
- (d) provides a smart meter communication service,"*

Participation in the operation of an interconnector requires a licence, which Interconnector holds pursuant to section 7ZA of the Gas Act. It is clear that the conveyance of gas between an interconnector and a public gas transporter does not, pursuant to section 5.1 (a) of the Gas Act require a licence.

Section 5.2 of the Gas Act provides class and named exemptions for the activities in Section 5.1. These exemptions are available and granted where the requirement to hold a licence would be excessive or onerous. Government guidance issued when the exemption regime was introduced specifically states that interconnector operators do not need a licence exemption to be able to convey gas into the NTS¹¹;

"Facilities covered by a named exemption include the IUK Interconnector...We propose not to renew the exemption for Interconnector (UK) Limited (IUK) to convey gas from the Interconnector to a gas pipeline operated by a licensed gas transporter, as it is no longer

¹¹ Quote taken from Page 4:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/42564/571-notice-6a-gas-act.pdf

required. The exemption was granted prior to the licensing of gas Interconnectors...[which enables] an Interconnector operator to convey gas into the gas network without the need for a licence exemption.”¹²

Storage Operators have a class exemption under section 5.2 of the Gas Act. Without such an exemption, Storage Operators would require a Gas Transporter licence which would be unduly onerous - or in some cases impossible as many Storage Operators hold Shipping Licences (as foreseen in The Gas (Exemptions) Order 2011). This is discussed in the same government guidance issued when the exemption regime was introduced (Section 9).

In the case of the Interconnector Storage Service, as conveyance of gas into the NTS from an interconnector does not require a license under section 5.1, Interconnector does not need an exemption from this section 5.1 so the provisions available under section 5.2 are not relevant.

Market Access Rules

Interconnector is an independent and fully ownership unbundled operator and will offer all the capacity it makes available under the proposed Storage Service to the market. This is in line with Interconnector’s current business model for its Transportation services which is negotiated Third Party Access (“nTPA”). Interconnector is therefore not seeking an exemption from this regime for its proposed Storage activities nor will it seek a minor facility exemption from section 19B of Gas Act Section 19B (which is an exemption that several GB Storage Facilities have the benefit of).

The provision of the Storage Service by Interconnector will be in line with the requirements of the Gas Regulation, the commercial access regime as set out in the Gas Act¹³ and the Petroleum Act¹⁴ as well as following the guidance published by Ofgem for Storage Operators. Ofgem’s guidance includes the establishment of an SSA which has been consulted upon with market users. As described in this document, the SSA outlines the terms and conditions under which Storage Users can access the Interconnector Storage Services. The current regulatory framework along with the SSA will ensure that the Interconnector Storage Service will be offered by objective, non-discriminatory and transparent mechanisms to the market. By adhering to the full regulatory framework without seeking any available exemption, Interconnector will ensure that it is operating on a level playing field with other GB Storage Facilities and that Interconnector Storage Users are on a level playing field with other GB Storage Users.

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¹² Interconnector (UK) Limited registered a name change in June 2021 becoming Interconnector Limited. Resolution available at <https://find-and-update.company-information.service.gov.uk/company/02989838/filing-history>

¹³ Section 19B of the Gas Act 1986

¹⁴ Section 17D of the Petroleum Act 1998