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 @_Interconnector

All Stakeholders

23 May 2022

Dear Stakeholder,

Consultation on Interconnector's Access Rules and Charging Methodology amendment proposals to facilitate the merging of Interconnector and BeLux Market Area

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

The changes are to allow the proposed integration of the BeLux Market Area and Interconnector. The integration will simplify the trading arrangements for gas transportation between the Continent and the GB market by removing the IZT Interconnection Point ("IP") which currently connects the Interconnector to the Fluxys Belgium System. The BeLux Market Area, operated by Fluxys Belgium, is also proposed to be simplified through the merger of the existing ZTP Physical and ZTP Notional trading points into one single hub, the ZTP, from which Shippers may directly access the UK's NBP market. Creating a more accessible trading model has the potential to enhance liquidity and significantly reduce complexity for shippers. A separate consultation has been launched by Fluxys Belgium outlining proposed amendments to its access rules.¹

Together with Fluxys Belgium, Interconnector has prepared a Consultation Brochure which should be referred to for information on the key changes being proposed and the associated benefits.

This Consultation Letter is intended to outline the proposed changes to the Access Rules and CM. The accompanying attachments outline the specific changes proposed to these documents.

1. Introduction

This Consultation Letter highlights the proposed changes to INT's Access Rules and Charging Methodology ("CM"). These 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.

¹ <https://www.fluxys.com/en/products-services/empowering-you/customer-interactions/consultations-in-belgium--transmission>

- 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 Charging Methodology sets out the methodology that Interconnector applies to charging for its transportation services under the IAA and IAC.

Interconnector is required by its governing rules to review its Access Rules and its CM at least once every calendar year. The Access Rules and CM are approved by both Ofgem², the GB NRA and by CREG³, the Belgian NRA. INT's current Access Rules and CM were approved by both NRAs following a consultation in 2021.⁴

2. Summary of Proposed Amendments to Interconnector's Access Rules

2.1 Amendments to the Interconnector Access Agreement (Annex 1)

The following key changes have been made to the Interconnector Access Agreement:

Appendix A, Clause 1: Wording has been inserted to introduce the integration of Interconnector with the BeLux Market Area. Subject to NRA approvals, INT intends to offer its capacity under the new contractual arrangements. INT capacity would therefore only be offered at the Bacton IP, inclusive of the rights to enter/exit the Combined Market Area. It is anticipated that the NRA decisions would be received ahead of the PRISMA Monthly Auction for December capacity and the Quarterly Auction for Q1 23 – Q3 23, and subject to NRA approval, allow INT and Fluxys Belgium to market these capacities under the new market model.

Appendix A 2.9, 2.10, 3.2(b), 8.10-14: Amendments have been made to account for the fact that INT capacity will be marketed and invoiced in Euros rather than Pounds Sterling following the integration of the Interconnector and BeLux Market Area. Interconnector will publish and invoice the capacity tariff for all new bookings in cent/(kWh/h)/h. This also includes an update of the applied interest rate from SONIA to EURIBOR; a more appropriate measure for Euro based invoicing.

Appendix A, Clause 7: Whilst the Entry and Exit points at the IZT IP have been removed as commercial, bookable points, the physical separation between the Interconnector System and the Fluxys Belgium Transmission System remains.

Appendix A, Clause 9.3: Interconnector will retain its own Balancing Regime as part of the proposed integration with the BeLux Market Area. Balancing within the BeLux Market Area will also remain unchanged, and continue to be operated by Balansys. When gas is delivered to the BeLux Market Area, INT Shippers will nominate a Balancing Partner who will take title of the gas and the associated balancing actions under the Balansys Balancing Agreement ("BA"). The expectation is that the Shipper entity would be the same across Interconnector, Fluxys Belgium and Balansys, however a different entity can be nominated if required. This should simplify the arrangements across the two balancing regimes. In order for this mechanism to be successful, INT will need to share the relevant information with Balansys; as such, an update has been made to Clause 9.3.

² Ofgem: The Office of Gas and Electricity Markets, <https://ofgem.gov.uk>

³ CREG: La Commission de Régulation de l'Electricité et du Gaz, <https://www.creg.be>

⁴ <https://www.fluxys.com/en/news/interconnector/2021/20211028-annual-review-of-the-interconnector-access-terms-and-charging-methodology>

In addition to these changes there have been several updates to the definitions and terms outlined in Appendix B as well as the inclusion of the references to the Interconnector Storage Service Agreement ("SSA") the implementation of which is pending NRA review.⁵

2.2 Amendments to the Interconnector Access Code (Annex 2)

The following key changes have been made to the Interconnector Access Code:

Treatment of Existing Capacity Bookings

INT has developed a series of Transition Measures to accommodate capacity transactions made ahead of any NRA approval of the integration of the Interconnector and BeLux Market Areas.

The first measure is detailed in Section B, paragraph 5 of the IAC. This confirms that all existing Interconnector capacity bookings and the associated capacity charges in place at the IZT IP will be transferred to the Bacton IP. This is a result of the IZT IP being removed as a bookable point under the integration.

The second measure is to address existing, unbundled Interconnector capacity transactions made via the 2015 Subscription Process or via the Implicit Allocation Mechanism ("IAM"). Following, and subject to, NRA approval, INT capacity will be marketed with the entry or exit rights into the Combined Market Area. This means that Shippers who already hold unbundled Interconnector capacity would need to re-book this capacity in order to secure the right to enter or exit the Combined Market Area. To avoid this duplication, wording has been introduced into Appendix C, paragraph 2.2.6 and Section F, paragraph 5.5, to allow Shippers holding unbundled Interconnector capacity contracted ahead of any NRA approval to acquire the Fluxys Belgium Entry or Exit capacity rights via a pay-per-use system. Shippers would nominate against the Interconnector capacity and these nominations would be carried across to the IZT Connection Point to generate a booking on the Fluxys Belgium Transmission System. The contracted volume, used for invoicing purposes, would be based on the highest allocated Hourly Quantity on that particular Gas Day.

The third measure looks at the scenario where a Shipper already holds unbundled capacity on the Fluxys Belgium Transmission System. Under the new market model, Fluxys Belgium capacity will only be available bundled with Interconnector capacity. Therefore, where such Shippers wish to contract Interconnector capacity, they would then hold duplicated Fluxys Belgium capacity. Therefore a rebate, equivalent to the Fluxys Belgium Entry or Exit Capacity Charges, will be issued when a new capacity transaction is made. This will be equivalent in volume to the underlying existing Fluxys Belgium capacity transaction and the Shipper will continue to be invoiced by Fluxys Belgium for their existing booking (Section F, paragraph 5.6).

Nominations and Balancing

Under the new market model, the IZT IP is removed as a commercial, bookable point, leaving only the Bacton IP as the direct connection between the NBP and ZTP. This means that for nominations, Shippers are only required to place one nomination at the Bacton IP for entering or exiting the Combined Market Area. An update to Appendix C, paragraph 3.3 accounts for this change.

Any capacity held at the IZT IP which was booked prior to the NRA approval of the integration, will be merged with the corresponding capacity at the Bacton IP to create a combined quantity which the Shipper can utilise by placing one single nomination at the Bacton IP

⁵ The stakeholder consultation on introducing the SSA is available here:

<https://www.fluxys.com/en/products-services/empowering-you/customer-interactions/consultations-in-the-uk/2021---consultation-on-the-interconnector-storage-service>

(Appendix B, paragraph 5.3.1 (h)). To facilitate this single nomination setup, the nomination and allocation data at the Bacton IP will automatically be transferred to Fluxys Belgium to generate the Shipper position on the Fluxys Belgium Transmission System and to Balansys to establish the Balancing position of the appointed Balancing Partner. (Appendix C, paragraph 2.5 and Appendix D paragraph 2.2 & 2.3)

Introduction of Fluxys Belgium OCUC and Wheeling Services

On the Fluxys Belgium Transmission System, Shippers can request the use of Wheeling and Operational Capacity Usage Commitments ("OCUCs"). Under the new model, such OCUCs or Wheeling services can be created in combination with Interconnector capacity at the Bacton IP. INT has therefore introduced these services into Section B, paragraph 5 of the IAC.

Shippers who hold existing capacity at an eligible Fluxys Belgium Entry or Exit Point⁶ may request to convert a matching volume of capacity booked on the Bacton IP Entry or Exit into an OCUC or Wheeling product. This will ultimately be facilitated by the PRISMA platform, however whilst this is in development INT and Fluxys Belgium will process conversions internally. The Fluxys Belgium capacity must match the period that the Shipper holds Interconnector capacity for, and must be at least one gas day in duration. For example, if a Shipper holds monthly capacity for *June* on the Fluxys Belgium Transmission System, this can be converted into a monthly OCUC with a matching quantity of monthly *June* Interconnector capacity. In addition, if a Shipper holds a non-standard capacity product on the Interconnector System, booked through the IAM, this can be matched on a daily basis with Daily Capacity on the Fluxys Belgium Transmission System.

Shippers who utilise these services receive an incentivised Fluxys Belgium capacity tariff on the basis that they transport their gas directly in and out of the Combined Market Area without accessing the market based balancing services (provided by Balansys) or the ZTP trading services and instead are balanced across the route on an hourly basis. INT will publish the OCUC and Wheeling Combinations in the INT Charging Statement, along with the applicable tariffs.

In order to identify the difference in balancing regimes between a standard Entry or Exit booking, Shippers holding an OCUC or Wheeling service that includes the Bacton IP will be provided with an additional Shipper Code through which these nominations will be made. (Appendix C, paragraph 1.4 and 3.1).

Additionally, for nominations against OCUCs or Wheeling services, INT will match the Entry or Exit nomination at the Bacton IP with the corresponding nomination for Entry or Exit Services on the Fluxys Belgium transmission system to ensure that the route remains balanced and the nominations remain equal at each location. (Appendix C, paragraph 1.6-2.1.8).

Currency and Charging arrangements

Interconnector has removed the reference to the currency of the Contracted Capacity Price in Section B, paragraph 5.1. This is to account for the fact that during the transition from the current market model to the new market model, bookings made ahead of the NRA approval will continue to be invoiced a Capacity Charge in Pounds Sterling, whilst all other bookings will be invoiced in Euros.

The Interconnector Commodity Charge will be invoiced in Euros for all capacity held after the implementation date of 1 December 2022. Following the removal of IZT IP, the Interconnector

⁶ For example, VIP BENE – Bacton IP Exit, Bacton IP Entry – VIP BENE Exit, Dunkirk LNG Terminal Entry – Bacton IP Exit.

Commodity Charge will be calculated based on the Entry allocation or Exit allocation at the Bacton IP only. (Section F, paragraph 2.1).

In addition to these changes there have been several minor drafting updates and clarifications to existing definitions as well as the inclusion of the references to the Interconnector SSA, the implementation of which is pending a review by Ofgem⁷.

3. Summary of Changes to the Interconnector Charging Methodology (Annex 3)

The following key changes have been made to the Interconnector Charging Methodology:

Inclusion of Euro based charging

Following the implementation of the proposed integration, Interconnector will continue to invoice capacity booked ahead of the NRA approval in Pounds Sterling. For new bookings made post-NRA approval, Interconnector will invoice the capacity charges in Euros. All capacity offered after the NRA approval will be marketed in Euros. The Charging Methodology has therefore been updated to account for both currencies (paragraph 1.2).

From 1 December 2022 onwards, Interconnector will publish and invoice its Commodity Charge in Euros. Following the removal of the IZT IP, the Commodity Charge will be applied against the Entry and Exit allocations at the Bacton IP only.

Inclusion of Fluxys Belgium Charges

With the removal of the IZT IP, the Interconnector costs previously allocated to the IZT IP will be reallocated in full to the Bacton IP. The Fluxys Belgium capacity charge currently applicable at the IZT IP will also be reallocated in full to the Bacton IP. The Interconnector Capacity Charge will therefore include a revenue recovery factor which is equal to the applicable Fluxys Belgium IZT Entry or IZT Exit capacity charge.

The Interconnector Commodity Charge has also been modified so that the applicable charge per flow direction will be the sum of the relevant Interconnector Commodity Charge formulae and a revenue recovery factor equal to the Fluxys Belgium commodity charge formulae (paragraph 6). The Interconnector Commodity Charge formulae will also be indexed against the ZTP gas price, rather than the NBP price. This is to allow for currency consistency as well as to coordinate with the Fluxys Belgium formulae which also uses the ZTP as its base, all of which will facilitate simplicity in the cross border trading arrangements.

The Fluxys Belgium capacity and commodity charges are determined by the Fluxys Belgium Charging Methodology and are therefore not subject to the terms of the Interconnector Charging Methodology or the Interconnector Access Agreement.

Inter TSO Transfer

As Interconnector will include a revenue recovery factor which is equivalent to the Fluxys Belgium IZT Capacity and Commodity charges into its tariff structure, a transfer of this revenue will be made by Interconnector to Fluxys Belgium. This will encompass the Fluxys Belgium Entry and Exit capacity charges as well as the total commodity charge based on realised allocations. The applicable charges for these elements are the Fluxys Belgium regulated tariff for the IZT IP and the published commodity charge formulae, therefore Fluxys Belgium is kept whole at all times.

⁷ The stakeholder consultation on introducing the SSA is available here: <https://www.fluxys.com/en/products-services/empowering-you/customer-interactions/consultations-in-the-uk/2021---consultation-on-the-interconnector-storage-service>

4. Your Feedback

We would appreciate comments from all interested parties. Please send your response to consultation@interconnector.com by 17:30 UKT on 20 June 2022. All responses received in this consultation will also be considered alongside the responses received to the amendments being proposed by Fluxys Belgium, in line with the information sharing provisions of the IAA and the Fluxys Belgium Standard Transmission Agreement.

Following this stakeholder consultation, Interconnector will review the responses with the aim to submit final proposals to Ofgem and CREG by the end of June 2022. Subject to NRA approval the amended Access Terms and the Interconnector Charging Methodology will come into effect ahead of the planned implementation date of 1 December 2022.

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
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