

To: IUK Shippers

1 November 2018

Update to IUK capacity offering

Current power supply situation in Belgium

Belgium is facing a very tight power supply during Winter 2018/19, due in part to outages at Engie Electrabel's nuclear power plants¹. The electric driven compressors at Interconnector's Zeebrugge Terminal (IZT) have a total nominal power up to 105MW, meaning that IUK is affected by the higher electricity costs. This note explains how the tight power market may affect IUK and its Shippers, and sets out IUK proposals to mitigate the impact of a demand response request by the electricity supplier.

IUK's Commodity Charge

Under IUK's transportation agreement, the IAA, IUK passes through the actual cost of fuel gas, shrinkage and electricity costs to Shippers through a commodity charge.

The forecasted commodity charge is calculated on a monthly basis for the following month and is published 2 weeks ahead of the PRISMA auction for the next month.

Demand response

As part of IUK's electricity supply agreement in Belgium, during Q1 and Q4 in a calendar year its supplier can call for a demand response during 3 consecutive hours per day and, in exceptional circumstances, up to 2 times 3 consecutive hours per day. Recent conversations with our supplier about stresses in the Belgian power market during winter 2018-19, have flagged the possibility that a demand response may be requested.

Although IUK considers the likelihood of such demand response request by the supplier to be low, if a demand response request is received it will have a significant impact on the cost to flow gas through the IUK interconnector. In order to be transparent, IUK wishes to inform its Shippers of the consequences of a demand response request and how IUK proposes to respond.

A demand response will be notified to IUK by 5 pm CET for the next calendar day. If a demand response is called then IUK has the choice to either:

- (i) reduce electrical consumption to 0 MW during these hours; or
- (ii) flow through these hours, paying the negative imbalance price during these hours (up to a maximum of 13,500EUR/MWh (electrical), as approved by CREG² and published on www.elia.be, with actual values only available after the period).

¹ http://www.elia.be/~media/files/Elia/PressReleases/2018/20181002_Press-release-Winter-outlook-2018-2019.pdf

² Previously maximum 3500EUR/MWh, recently amended by CREG decision (B)1806 of 20 september 2018 <https://www.creg.be/sites/default/files/assets/Publications/Decisions/B1806NL.pdf>

Risk Mitigation

IUK wishes to continue making available the maximum technical capacity while taking into account system integrity and efficient network operation.

IUK will undertake two actions:

- For periods covering, or falling within Q1 or Q4 of any calendar year, IUK will market 70% of its technical Belgium to UK capacity in any Allocation Mechanism as firm capacity. By limiting the amount of firm capacity, IUK is able to ensure that the gas flow nominations made for bookings up to this level will be respected (also for the gas flow nominations during the demand response hours), and is confident that it can profile the flows around the hours where a demand response has been activated.
- For periods covering, or falling within Q1 or Q4 of any calendar year, IUK will market the additional 30% of its technical Belgium to UK capacity in any Allocation Mechanism as interruptible capacity (incl. a discount compared to the related firm product). In case of a call for demand response by IUK's electricity supplier, IUK will pass on the choice to the holders of interruptible capacity, to either adjust their gas flow nominations during all hours of the gas day or to pay the additional costs for electrical consumption in case IUK needs to flow during these demand response hours. IUK will not decide on behalf of the shipper to constrain the gas flow nominations.

Changes to the IUK Charging Statement

To implement the arrangements outlined above, IUK has added the following to the description of the Commodity Charges in the Charging Statement:

“For holders of Interruptible Capacity during Q1 and Q4 of any calendar year, the Commodity Charges will be supplemented by an exceptional charge in the event that IUK's electricity supplier for its Zeebrugge terminal calls for a demand response.

Specifically, upon receipt of such demand response notification for the next calendar day, IUK will notify the market via its website and via an Urgent Market Message (UMM), indicating the hours during which the demand response applies.

Such demand response hours are:

- (a) 3 consecutive hours;*
- (b) with a possibility for a second activation of 3 consecutive hours on days for which:*
 - (i) a brown-out has been announced for the Belgian market, or*
 - (ii) the BELPEX day-ahead market has cleared above 2,000EUR/MWh for at least two non-consecutive hours).*

Taking into account this notification, the holders of Interruptible Capacity can mitigate their exposure to the exceptional charge by modifying their gas flow nominations during the entire affected Gas Day.

For electricity consumed during the demand response hours IUK will incur costs at the negative imbalance tariff as published by the Belgian electricity transmission grid operator, Elia (<http://www.elia.be/en/grid-data/balancing/imbalance-prices>). IUK will allocate these costs as an exceptional charge to the holders of Interruptible Capacity pro-rated to the sum of their Entry Allocations at the Zeebrugge Entry Point on the affected Gas Day.”

Taking into account a 28 day notification period, this adjustment will be effective as from 1st December 2018.

Mitigation by IUK

IUK is in conversation with the Belgian power grid operator and its power supplier to better understand the situation and try and find solutions that mitigate the effects of issues in the Belgian power market on IUK and its Shippers. The Belgian and UK regulatory authorities have been informed of these market circumstances and IUK's mitigating measures.

IUK appreciates that these circumstances on the Belgian power market affect Shippers and will continue to work with all stakeholders to address the impact of disruption in the Belgian power market on the European gas supply situation during the upcoming winter.

For further questions please contact

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