



Making a positive difference
for energy consumers

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CC. Marie-Pierre Fauconnier,
President of the Commission de Régulation
de l'Electricité et du Gaz (CREG)

Date: 30 July 2015

Dear Sean,

Approval of the modified access rules and charging methodology proposed by Interconnector (UK) including directions of approval pursuant to Standard Licence Condition (SLC) 11A and 10 of the gas interconnector licence.

Interconnector (UK) ('IUK')¹ proposed modifications to its access rules on 8 May 2015 and to its charging methodology on 26 June 2015 to the Authority² for approval. These were submitted pursuant to Standard Licence Condition (SLC) 11A and SLC 10 respectively of the gas interconnector licence ('licence')³.

This letter and the annexed directions set out our approval of the submitted proposals. Attached to this letter are two directions to IUK approving the proposed modified access rules and modified charging methodology on the basis that they meet the relevant access rules objectives and relevant charging methodology objectives⁴.

Background

Ofgem, in its role as National Regulatory Authority (NRA) for Great Britain (GB) is responsible for overseeing implementation of the legally binding 'Guidelines' and 'Network Codes' established under the suite of European Union (EU) legislation on European electricity and gas markets, referred to as the 'Third Package'⁵. The Authority has duties to

¹ IUK is a certified Transmission System Operator (TSO) and holder of a gas interconnector licence. It operates a bi-directional gas interconnector that links the UK and continental European energy markets.

² The Gas and Electricity Markets Authority. Ofgem is the Office of the Authority. The terms 'Ofgem', 'the Authority', 'we' and 'us' are used interchangeably in this letter.

³ The current version of the gas interconnector licence and SLCs can be found at <https://epr.ofgem.gov.uk/>

⁴ The 'relevant access rules objectives' are set out in SLC 11A(5) of the licence. The 'relevant charging methodology objectives' are set out in SLC 10(4) of the licence.

⁵ In relation to gas, the 'Third Package' includes Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC (the 'Gas Directive') and Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005 as amended (the 'Gas Regulation') <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02009R0715-20130601&from=EN>.

monitor IUK's compliance with the Guidelines and Network Codes and with the terms of its licence to ensure it remains compliant with the relevant requirements as circumstances develop. Part of these responsibilities includes ensuring compliance of GB's transmission system operators (TSOs) with obligations under the European Network Codes on Capacity Allocation Mechanisms (CAM) and Balancing and the Congestion Management Procedures (CMP) Guidelines⁶.

The CAM Network Code aims to facilitate access to cross-border capacity and introduces rules for offering standardised capacity products via auction on a common booking platform. The Balancing Network Code introduces new rules for network users to balance portfolios more efficiently by introducing a market based daily balancing regime. The CMP Guidelines introduce four mechanisms to reduce contractual congestion at interconnection points on all TSOs, including IUK. These mechanisms are oversubscription and buy-back (OSBB), capacity surrender, long-term use-it-or-lose-it (LT UIOLI) and day-ahead UIOLI.

Throughout the implementation process, Ofgem consulted and took account of views shared by all relevant parties including CREG (the Belgian NRA), other neighbouring NRAs, ACER and the European Commission. On 19 December 2014, Ofgem approved IUK's proposed access rules and charging methodology for offering day-ahead capacity in accordance with the CMP Guidelines⁷.

Leading up to the proposed modifications to the access rules and charging methodology, IUK conducted two consultations⁸. Launched on 8 April 2014⁹, the first consultation was on the concept document IUK prepared with Fluxys Belgium and National Grid Gas (NGG) on principles for implementing the CAM and Balancing Network Codes at the Zeebrugge and Bacton interconnection points. On 17 September 2014, IUK published an 'Industry Update' on its website, providing a response and summary of the representations received. On 31 October 2014, IUK submitted a report entitled 'CAM and BAL EU Network Codes: IUK Implementation and Compliance' to Ofgem and CREG, detailing its proposals to comply with the Network Codes. Ofgem responded on 21 January 2015 with a non-binding view that IUK was broadly on track to meet the Network Code requirements. On 22 January 2015¹⁰, IUK launched its second consultation on the proposed modifications to the access rules and the charging methodology as well as IUK's plan to run a 'Subscription Process' in spring 2015. The non-confidential representations were published shortly after the consultation on IUK's website.

When submitting the proposed modifications for approval, IUK furnished the Authority with reports pursuant to SLC 11A(11) and SLC 10(11) of the licence. The reports, and information provided in our subsequent discussions with IUK, set out the terms originally proposed for the modifications, the representations made by interested persons, the changes to the terms of the modifications as a consequence of the representations

⁶ Commission Regulation (EU) No 984/2013 of 14 October 2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems (the 'CAM Network Code') <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R0984&from=EN>.

Commission Regulation (EU) No 312/2014 of 26 March 2014 establishing a Network Code on Gas Balancing of Transmission Networks (the 'Balancing Network Code') <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0312&from=EN>.

Commission Decision 2012/490/EU of 24 August 2012 on amending Annex I to the Gas Regulation (the 'CMP Guidelines') <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32012D0490&from=EN>.

⁷ https://www.ofgem.gov.uk/sites/default/files/docs/2015/01/iukcmp_ofgem-decision-letter_0.pdf

⁸ The consultation documents are available on IUK's website, <http://www.interconnector.com/about-us/what-we-have-to-say/consultations/>

⁹ http://www.interconnector.com/media/92383/140408_-_consultation_letter_final.pdf

¹⁰ http://www.interconnector.com/media/96039/20150122_-_2018_capacity_sales_-_consultation_letter.pdf

received, how the proposed modifications better achieve the relevant objectives and a timetable for the implementation of the modifications.

Proposed Modifications

1. The main features of IUK's proposed modification of its access rules

IUK's access rules were previously limited to offering day-ahead capacity resulting from the CMP mechanisms. The proposed modification extends the access rules to the offer of long- and short-term capacity products (annual, quarterly, monthly, day-ahead, within-in day). Here is a brief description of the different allocation mechanisms IUK will use for offering capacity products¹¹:

- 'Capacity Auctions' for bundled and unbundled capacity (via PRISMA¹²) from 1 November 2015, in accordance with the CAM Network Code.
- Unbundled capacity under a 'Subscription Process' held between 22 January to 20 May 2015¹³. Annual and quarterly¹⁴ capacity products were offered in both directions for 2018-2030. 20% of IUK's technical capacity was reserved for future Capacity Auctions. Users could book consecutive yearly products, with a minimum of 1 year and a maximum of 12. There was no minimum volume. IUK would process the users' requests in order of longest to shortest duration, starting with those for 12 years. If the total volume of capacity requests of a particular duration and direction were less than the volume of available capacity, all the bids for that duration and product would be allocated at the reserve price. If the total volume exceeded supply then IUK would initiate an ascending clock auction to give the users the option to confirm or decrease their volume following an increment in price. This would not impact capacity that had already been allocated in the Subscription Process for longer durations.
- An overnomination procedure for allocating within-day interruptible capacity, in accordance with the CAM Network Code.

IUK's proposal modifies IUK's 'in=out' balancing rules, whereby delivery nominations must equal output nominations on an hourly basis. It also adds provisions for trade notifications and imbalance charges (in exceptional circumstances when a user's off-takes do not match its inputs).

IUK's proposal modifies the nomination rules to introduce a single nomination procedure for users with bundled capacity and for those with matching entry/exit capacity with the adjacent TSO. All single nominations will be submitted to NGG at Bacton and Fluxys Belgium at Zeebrugge, who then inform IUK. Separate entry and exit nominations will remain possible for users with unbundled capacity.

IUK proposes to change its rules for day-ahead OSBB. If buy-back is triggered after 21:00 (UK time) or IUK's buy-back requirement is not met by the voluntary process, a 'forced buy-back' process will apply whereby the relevant amount of capacity is bought back on a

¹¹ IUK's 'Bulletin Board' remains in use for secondary trading and for buying back oversubscribed capacity.

¹² PRISMA is a pan-European booking platform operator and will be used by National Grid Gas, IUK, Fluxys Belgium and many other TSOs. PRISMA's T&Cs cover most of the CAM rules on how to run CAM auctions so IUK's access rules don't duplicate those details.

¹³ All participants were informed that the rules for this Subscription Process would be submitted for NRA approval and that agreements were subject to NRA approval. This is because IUK is required to obtain the Authority's approval of its proposed modified access rules and charging methodology before it enters such agreements.

¹⁴ Users booking five or more years could also opt to book quarterly capacity, up to 50% of the volume of annual capacity booked. Requests for quarterly capacity would be allocated after all requests for annual capacity were processed.

pro rata basis from all users who booked day-ahead or within day capacity under the IUK's proposed modified access rules (the IUK Access Agreement, 'IAA').

With longer-term capacity offered in the proposed modification of access rules, IUK's proposal adds capacity surrender and LT UIOLI mechanisms. These will be consistent with the CMP-related changes made to IUK's long-term contracts, approved by Ofgem on 19 December 2014¹⁵.

In addition to the proposed modified access rules, a document summarising IUK's contractual framework for prospective users to obtain and use capacity was provided to the Authority for information. We note IUK intends to publish this 'IAA Summary' alongside the approved access rules (the IAA, IAC and SUA¹⁶). IUK's access rules will continue to run in parallel to the long-term contracts which expire on 30 September 2018¹⁷.

2. The main features of IUK's proposed modification of its charging methodology

IUK's previously approved charging methodology was limited to the sale of CMP-related capacity up until 30 September 2018. Here, IUK's proposed modification sets how the charging methodology will apply for capacity to be used after 1 October 2018¹⁸.

The proposed modification introduces general principles for determining reserve prices for IUK capacity. IUK will take account of several factors to determine reserve prices including competitive forces, costs for running the interconnector, and projected demand for IUK capacity. The reserve prices will not be determined by a mathematical formula.

For capacity allocated in a Subscription Process before 1 November 2015:

- The price paid for capacity (the reserve price plus any premium) will be fixed at the time of allocation. The reserve price component is subject to annual indexation.
- For bookings of five or more gas years, the reserve price is reduced by 10% for 5-7 years, 15% for 8-9 years and 20% for 10-12 years. Such bookings also benefit from a 'lowest price guarantee' whereby the price paid is the lower of (i) the sum of the reserve price and any premium for the capacity allocated in the Subscription Process, and (ii) the clearing price of annual capacity allocated in a Capacity Auction for that gas year (or the reserve price if no capacity is allocated).¹⁹
- Where users have booked five or more years of annual capacity and choose to book two or three quarters of capacity, the price of quarterly capacity is at respective 50% and 20% premium of the reserve price for the annual capacity products corresponding to the same duration.

IUK's proposed modified rules for 'in=out' balancing will apply from 1 November 2015 so users will not face imbalance charges except in exceptional circumstances.

¹⁵ See page 4 of https://www.ofgem.gov.uk/sites/default/files/docs/2015/01/iukcmp_ofgem-decision-letter_0.pdf

¹⁶ The IUK Access Agreement (IAA) is an agreement setting out general terms and conditions that a user must accept to obtain interconnector capacity, e.g. credit criteria. By signing the IAA, users are bound by the IAC as well. The IUK Access Code (IAC) covers arrangements for obtaining capacity, nomination procedures, congestion management, balancing arrangements and operating rules. Unchanged since Ofgem approved it on 19 December 2014, the System User Agreement (SUA) sets out general terms and conditions for all users to access IUK's IT system, through which capacity can be obtained and used.

¹⁷ 100% of IUK's capacity is booked until 30 September 2018 under these long-term contracts.

¹⁸ The methodology for setting the reserve price remains unchanged for capacity for use before 1 October 2018.

¹⁹ Such bookings would also be exempt from any additional charges introduced in the future. These provisions are specified in IUK's access rules in the capacity transaction template for the Subscription Process (IAC Annex B-3).

For fuel charges after 1 October 2018, users will provide their fuel gas physically and will be invoiced for compressor electricity at a fixed percentage of their flow rather than the exact quantity of electricity consumed. From 1 November 2015, users will be allocated shrinkage in proportion to their allocations, using a fixed factor notified in advance by IUK.

Decision on the proposed modified access rules and modified charging methodology

Upon review of the documents submitted on 8 May and 26 June 2015 to Ofgem for approval, with the main features as summarised above, the Authority considers the proposed modified access rules and modified charging methodology to be transparent, non-discriminatory, objective and compliant with the relevant legally binding decisions of the European Commission and/or ACER. Such decisions include the CMP Guidelines, CAM and Balancing Network Codes.

The Authority has therefore decided to approve the proposed modified access rules and modified charging methodology on the basis that they better meet the relevant access rules objectives and the relevant charging methodology objectives set out in SLCs 11A(5) and SLC 10(4) respectively of the licence.

Directions issued in accordance with SLC 10(14) and SLC 11A(14) respectively of the licence to this effect can be found in the Annexes 1 and 2 to this letter.

As soon as practicable after approval, and no later than 28 days prior to coming into effect, the licence requires IUK to publish (at least on its website) the access rules, as modified, and a charging methodology statement that sets out the prevailing charges and how they have been derived in accordance with its modified charging methodology. We consider that the prevailing charges include reserve prices for capacity offered in future allocation mechanisms, including Capacity Auctions and Subscription Processes. As a result, we expect the applicable reserve prices to be published before a given allocation mechanism.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Paul Branston', with a stylized, looping flourish above the name.

Paul Branston,
Associate Partner, Gas Networks

ANNEX 1 – Access Rules

Direction issued to Interconnector (UK) Ltd pursuant to Standard Licence Condition 11A (approval of terms for access to the licensee’s interconnector) paragraph 14 of its gas interconnector licence

1. This Direction is issued by the Gas and Electricity Markets Authority (the “Authority”) pursuant to Standard Licence Condition 11A (SLC 11A) paragraph 14 of the gas interconnector licence (“the Licence”) granted or treated as granted under section 7ZA of the Gas Act 1986 (“the Act”) to Interconnector (UK) Ltd (“IUK” or “the licensee”).
2. SLC 11A paragraph 2 provides that the licensee shall prepare and submit for approval by the Authority a statement setting out the Access Rules (as defined in the Licence).
3. SLC 11A paragraph 5 requires that the Access Rules be transparent, objective, non-discriminatory and compliant with the Regulation (Regulation (EC) No 715/2009 on conditions for access to the national gas transmission networks) and any relevant legally binding decision of the European Commission and/or Agency (collectively the ‘relevant access rules objectives’).
4. SLC 11A paragraph 9 requires the Licensee to review its Access Rules at least once in each calendar year and make such modifications to the Access Rules as may be requisite for the purpose of ensuring that the Access Rules better achieve the relevant access rules objectives. The Access Rules for the Licensee were first approved on 19 December 2014.
5. SLC 11A paragraph 11 requires the licensee to take all reasonable steps to ensure that all persons, including those in other Member States who may have a direct interest in the Access Rules, are consulted on the proposed modifications and allow them a period of not less than 28 days within which to make written representations. The licensee must also furnish the Authority with a report setting out the terms originally proposed for the modifications, the representations, if any, made by interested persons, any change in the terms of the modifications intended as a consequence of such representations, how the intended modifications better achieve the relevant access rules objectives, and a timetable for the implementation of the modifications.
6. In accordance with SLC 11A paragraph 11(b), on 8 May 2015 IUK furnished the Authority with a report.
7. In accordance with SLC11A paragraphs 2 and 11, on 8 May 2015 IUK submitted its proposed modified Access Rules to the Authority for approval.
8. Having regard to the relevant access rules objectives set out in SLC 11A paragraph 5, and to our principal objective and statutory duties, the Authority considers that IUK’s proposed modified charging methodology better meet the relevant access rules objectives.
9. The Authority hereby directs, pursuant to SLC 11A paragraph 14, that IUK’s proposed modified Access Rules are approved.
10. SLC11A paragraph 15 requires the licensee to publish (at least on its website) the Access Rules as soon as practicable after the Access Rules, as modified, have been approved by the Authority. The Access Rules must be published 28 days prior to coming into effect, unless the Authority directs otherwise.

11. This Direction shall have immediate effect. It shall remain in effect until such time as the Authority may revoke or vary the Direction in writing upon reasonable notice.

12. This direction constitutes notice of the Authority's reasons for the decision pursuant to section 38A of the Act.

Dated: 30 July 2015

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Paul Branston

Associate Partner, Gas Networks

Duly authorised on behalf of the Authority

ANNEX 2 – Charging Methodology

Direction issued to Interconnector (UK) Ltd pursuant to Standard Licence Condition 10 (charging methodology to apply to third party access to the licensee’s interconnector) paragraph 14 of its gas interconnector licence

1. This Direction is issued by the Gas and Electricity Markets Authority (the “Authority”) pursuant to Standard Licence Condition 10 (“SLC 10”) paragraph 14 of the gas interconnector licence (“the Licence”) granted or treated as granted under section 7ZA of the Gas Act 1986 (“the Act”) to Interconnector (UK) Ltd (“IUK” or “the licensee”).
2. SLC 10 paragraph 2 provides that the licensee shall prepare and submit for approval by the Authority a charging methodology for access to (including use of) the licensee’s interconnector.
3. SLC 10 paragraph 4 requires that the charges and application of the underlying charging methodology be objective, transparent, non-discriminatory and compliant with the Regulation (Regulation (EC) No 715/2009 on conditions for access to the national gas transmission networks) and any relevant legally binding decision of the European Commission and/or Agency (collectively the ‘relevant charging methodology objectives’).
4. SLC 10 paragraph 9 requires the Licensee to review its charging methodology at least once in each calendar year and make such modifications to the charging methodology as may be requisite for the purpose of ensuring that the charging methodology better achieves the relevant charging methodology objectives. The charging methodology for the Licensee was first approved on 19 December 2014.
5. SLC 10 paragraph 11 requires the licensee to take all reasonable steps to ensure that all persons, including those in other Member States who may have a direct interest in the charging methodology, are consulted on the proposed modification and allow them a period of not less than 28 days within which to make written representations. The licensee must also furnish the Authority with a report setting out the terms originally proposed for the modification, the representations, if any, made by interested persons, any change in the terms of the methodology intended as a consequence of such representations, how the intended modifications better achieve the relevant charging methodology objectives, and a timetable for the implementation of the modification.
6. In accordance with SLC 10 paragraph 11(b), on 26 June 2015 IUK furnished the Authority with a report.
7. In accordance with SLC10 paragraph 2 and 11, on 26 June 2015 IUK submitted its proposed modified charging methodology to the Authority for approval.
8. Having regard to the relevant charging methodology objectives set out in SLC 10 paragraph 4, and to our principal objective and statutory duties, the Authority considers that IUK’s proposed modified charging methodology better meets the relevant charging methodology objectives.
9. The Authority hereby directs, pursuant to SLC 10 paragraph 14, that IUK’s proposed modified charging methodology is approved.
10. SLC10 paragraph 15 requires the licensee to publish (at least on its website) a charging methodology statement that sets out the prevailing charges for access to the licensee’s interconnector and how the charges have been derived in accordance with its charging

methodology as soon as practicable after the charging methodology, as modified, has been approved by the Authority. The charging methodology statement must be published 28 days prior to it coming into effect, unless the Authority directs otherwise.

11. This Direction shall have immediate effect. It shall remain in effect until such time as the Authority may revoke or vary the Direction in writing upon reasonable notice.

12. This direction constitutes notice of the Authority's reasons for the decision pursuant to section 38A of the Act.

Dated: 30 July 2015

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Paul Branston

Associate Partner, Gas Networks

Duly authorised on behalf of the Authority