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

Date: 21 September 2015

Dear Sean,

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

Interconnector (UK) ('IUK')<sup>1</sup> proposed modifications to its access rules on 29 July 2015 to the Authority<sup>2</sup> for approval pursuant to Standard Licence Condition (SLC) 11A of the gas interconnector licence ('licence').<sup>3</sup>

This letter and the annexed direction set out our approval of the submitted proposals. Attached to this letter is a direction to IUK approving the proposed modified access rules on the basis that they better achieve the relevant access rules objectives.<sup>4</sup>

**Background**

Leading up to the proposed modifications to the access rules, IUK conducted a four-week consultation on the proposed modifications. Launched on 25 June 2015<sup>5</sup>, the consultation was on IUK's proposals to introduce a voluntary 'reshuffling service' and to conduct a sales process in September 2015. The non-confidential representations were published shortly after the consultation on IUK's website. IUK provided regular updates to Ofgem and CREG.

When submitting the proposed modifications for approval, IUK furnished the Authority with a report pursuant to SLC 11A(11) of the licence. The report sets 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 received, how the proposed modifications better achieve the relevant objectives and a timetable for the implementation of the modifications.

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<sup>1</sup> 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.

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

<sup>3</sup> The current version of the gas interconnector licence and SLCs can be found at [epr.ofgem.gov.uk](http://epr.ofgem.gov.uk)

<sup>4</sup> The 'relevant access rules objectives' are set out in SLC 11A(5) of the licence.

<sup>5</sup> [www.interconnector.com/media/99886/consultation\\_for\\_reshuffle\\_principle\\_final\\_25\\_06\\_15\\_2.pdf](http://www.interconnector.com/media/99886/consultation_for_reshuffle_principle_final_25_06_15_2.pdf) Past consultation documents are available on IUK's website, [www.interconnector.com/about-us/our-consultations/](http://www.interconnector.com/about-us/our-consultations/)

## Proposed Modifications

IUK proposes to run a second 'subscription process' this year, with 15 October 2015 chosen as the deadline for users to submit their capacity requests. Previously IUK held a subscription process in May 2015 and proposes to re-use the rules with some adjustments.<sup>6</sup> This sale will enable users to book capacity for use after 1 October 2018 either as a standalone booking or to 'reshuffle' their current capacity portfolios before IUK switches to selling bundled capacity from 1 November 2015 in standardised capacity auctions.

In conjunction with this subscription process, IUK proposes to offer a 'reshuffling service': a voluntary and commercial service for existing users to alter their current holdings of capacity for use before 1 October 2018.<sup>7</sup> The reshuffling service will enable each user to release part of its contracted capacity in exchange for successfully booking firm capacity for use after 1 October 2018<sup>8</sup> in the subscription process ending on 15 October 2015.

However, for the purpose of reshuffling, the new booking must be of greater value than the value of the released capacity. Similar to an exchange rate, a 'reshuffling factor' is applied to the user's new booking to calculate how much capacity can be released from the user's current capacity portfolio.<sup>9</sup> The terms and conditions are in IUK's 'Reshuffling Rules'.

We understand IUK will publish and notify users in due course of the reserve prices and the reshuffling factors to be used in this subscription process.

## Decision on the proposed modified access rules

IUK submitted its proposed modified access rules on 29 July 2015 to Ofgem for approval. Upon review, the Authority considers the proposed modified access rules to be transparent, non-discriminatory, objective and compliant with the relevant legally binding decisions of the European Commission.

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

A direction issued in accordance with SLC 11A(14) of the licence to this effect can be found in Annex 1 to this letter.

Yours sincerely



Rob Mills,

**Head of Gas Transmission, Gas Networks**

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<sup>6</sup> The rules proposed for the subscription process ending on 15 October 2015 are as follows: The process is open to all market participants. Annual and quarterly capacity products will be offered in both directions for 2018-2030. Users booking five or more years (and users who booked such capacity in May 2015) will also be able to book quarterly capacity, up to 50% of the volume of annual capacity booked. Requests for quarterly capacity will be allocated after all requests for annual capacity are processed. 20% of IUK's technical capacity will be reserved for future capacity auctions. Users will be able to book consecutive yearly products, with a minimum of 1 year and a maximum of 12.

IUK will process the users' requests in order of longest to shortest duration, starting with those for 12 years. All bids for a particular duration and product will be allocated at the reserve price if the total volume of capacity requests for that duration and direction is less than the volume of available capacity. If the total volume exceeds supply then IUK will initiate an ascending clock auction to give the users the option to confirm or decrease their volume following an increment in price. This will not impact capacity that will have already been allocated in the Subscription Process for longer durations.

<sup>7</sup> 100% of IUK's capacity is booked until 30 September 2018 under long-term contracts.

<sup>8</sup> In addition to changing the time of use, users will also be able to choose a different flow direction.

<sup>9</sup> This reshuffling factor will be less than 1 and vary depending on the number of years booked after 2018.

## **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. Proposed modified Access Rules were last approved on 30 July 2015.
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 29 July 2015 IUK furnished the Authority with a report.
7. In accordance with SLC11A paragraphs 2 and 11, on 29 July 2015 IUK submitted its proposed modified Access Rules to the Authority for approval. In accordance with SLC 11A paragraph 12, the Authority hereby consents to IUK proposing this modification to its Access Rules within one year of its previous proposals.
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: 21 September 2015



Rob Mills,

**Head of Gas Transmission, Gas Networks**

Duly authorised on behalf of the Authority