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Date: 15 March 2019

Dear Steven,

### **Approval of the proposed Access Rules for Interconnector (UK) including a direction to approve pursuant to Standard Licence Condition 11A of the Gas Interconnector Licence**

On 17 December 2018, Interconnector (UK) Limited (IUK) proposed modifications to its Access Rules to the Authority for approval.

The proposed Access Rules were submitted pursuant to Standard Licence Condition (SLC) 11A of the gas interconnector licence (the Licence)<sup>1</sup>, which require IUK to maintain 'Access Rules' that set out the general terms and conditions a user must accept to obtain and use transmission capacity on the IUK interconnector. The Authority most recently approved Access Rules for IUK on 5 March 2018<sup>2</sup>.

We have decided to approve the proposed modifications on the basis that they meet the relevant access rules objectives<sup>3</sup>. This letter contains a direction (attached as an Annex) approving the IUK access rules.

### **Proposed modifications**

IUK access rules set out rules for obtaining access to the IUK interconnector. In its submission to Ofgem on 17 December 2018 IUK have proposed the following modifications:

- Increase the amount of capacity that can be offered through the Implicit Allocation Mechanism (IAM)<sup>4</sup> from 50% to 75% of the firm capacity in both flow directions:
  - As with the current charging methodology, the remaining unallocated capacity will be allocated via the standard auctions on PRISMA<sup>5</sup>, pursuant to Capacity Allocation Mechanism Network Code<sup>6</sup> (CAM NC)

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<sup>1</sup> The gas interconnector licence standard conditions can be found here: [https://epr.ofgem.gov.uk/Content/Documents/Gas\\_Interconnector\\_SLCs\\_Consolidated%20-%20Current%20Version.pdf](https://epr.ofgem.gov.uk/Content/Documents/Gas_Interconnector_SLCs_Consolidated%20-%20Current%20Version.pdf)

<sup>2</sup> March 2018, IUK Access Rules approval: <https://www.ofgem.gov.uk/publications-and-updates/decision-proposed-modifications-interconnector-uk-s-access-rules>

<sup>3</sup> The Access Rules rules objectives are set out in SLC11A and state that access rules shall be transparent, objective, non-discriminatory and compliant with the Gas Regulation and any relevant legally binding decision of the European Commission and/or the Agency.

<sup>4</sup> Implicit allocation is defined in CAM NC as a capacity allocation method where, possibly by means of an auction, both transmission and a corresponding quantity of gas are allocated at the same time.

<sup>5</sup> PRISMA is the gas capacity booking platform used in at interconnection points in GB.

<sup>6</sup> The CAM NC is available here : <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32017R0459&from=EN>

- Changes to credit support arrangements:
  - To cover short term capacity by requiring shippers to provide credit support by the earlier of 5 days after allocation or one business day before utilisation of the capacity.
  - To change the calculation methodology for the exposure relating to bookings of long-term capacity. IUK propose basing this calculation on the shipper's highest estimated monthly capacity for any two months in which the shipper holds registered capacity. Currently, this calculation is based on the estimated charges for the following two months.
  - Changes to Force Majeure provisions. These include reducing the period of shipper liability for capacity charges, and reducing the length of time after the occurrence of a Force Majeure event that is ongoing, before a shipper or IUK can terminate the agreement.

## Industry Consultation

IUK conducted a public consultation between 4 October 2018 and 8 November 2018 on the proposed modifications to its Access Rules. IUK received six responses to its consultation.

All but one of the stakeholders agreed with IUK's proposal to increase the amount of offered capacity on the IAM up to 75% of firm capacity. One stakeholder however noted that the recent reduction of firm capacity being offered in the charging statement<sup>7</sup> could lead to situations where no firm capacity was available via PRISMA. IUK responded to this in its submission report to Ofgem, by amending the 75% limit to apply to firm capacity only rather than total technical capacity.

Two stakeholders questioned the rationale for the changes to the credit exposure calculation. One further stakeholder also noted the new 5 day limit could be challenging for shippers in some instances.

## Ofgem views

In our view, IUK's proposed Access Rules meet the relevant objectives, as required by SLC 11A of the License.

### Increase to IAM limit

In its previous Access Rules submission<sup>8</sup>, IUK introduced a number of safeguards to ensure that the proposed IAM was objective, transparent and non-discriminatory, and that the standard CAM NC auction process remains the primary allocation mechanism. These safeguards include restricting the amount of capacity that can be allocated through implicit allocation, restricting the IAM to a standard set of capacity products offered a certain period of time in advance, and the requirement that all unsold capacity must be offered at relevant CAM NC auctions. We also note the requirement under Articles 8(6) and (7) of CAM NC that a proportion of capacity be reserved for allocation in shorter-term auctions and that the standard congestion management procedures applied by IUK will also continue to apply to capacity allocated under the IAM. Apart from the change to the 50% limit, the safeguards will continue to be in place under the proposal.

The 50% annual limit was introduced as a precautionary measure for a product that was at the time untested by IUK. These modifications are being introduced a year after the introduction of IAM and we are not aware of any issues that have been observed since

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<sup>7</sup> IUK latest charging statement is available here : <https://www.interconnector.com/media/126987/iuk-charging-statement-issue-14.pdf>

<sup>8</sup> Ofgem decision on proposed modifications to IUK's Access Rules : <https://www.ofgem.gov.uk/publications-and-updates/decision-proposed-modifications-interconnector-uk-s-access-rules>

implementation. It is our view that the proposed increase remains in line with the access rules objectives.

With regards to the comment about the changes to IUK's Q1 and Q4 quarterly offerings in its charging statement, we consider IUK's proposal to amend the 75% limit to only apply to firm capacity a reasonable response in the short term. However, we also encourage IUK to keep these parameters under review to ensure that they remain appropriate in the longer term, including for the coming winter.

We note that the CAM NC does not specify how much capacity shall be allocated by implicit allocation methods. Therefore, we consider that the Access Rules remain compliant with EU Law.

### Credit Support arrangements

The amendments on Credit Support clauses are related to commercial arrangements between IUK and its users. Therefore, we consider that changing the arrangements will not affect the access rules objectives, however we expect IUK to monitor these arrangements and keep its Access Rules under review to ensure that they remain appropriate. We also note that IUK has engaged with some of the respondents on this issue to help alleviate concerns raised.

### **The Authority's decision**

Following a review of the documents submitted, with the key features as summarised above, we consider that the proposed Access Rules meet the relevant objectives and are transparent, non-discriminatory, objective and compliant with the Gas Regulation. We have therefore decided to approve the proposed modified Access Rules. A direction issued in accordance with SLC 11A(13) of the Licence can be found in Annexes 1 of this letter.

### **Publication of IUK proposed Access Rules**

In accordance with SLC 11A(15) of the Licence, IUK is required to publish (at least on its website) the approved Access Rules for a period of 28 days prior to their coming into effect (the Publication Period), unless the Authority directs otherwise.

On this specific occasion, we have decided to make an exception and shorten the Publication Period in order to allow for the proposed modifications to IUK's Access Rules to take effect immediately after the approval from the NRAs.

On balance, we consider it to be in the interests of GB consumers and market participants to implement the proposed Access Rules rather than requiring IUK to adhere to the Publication Period requirement. We also believe market participants are already sufficiently acquainted with the proposed access rules.

The Authority has therefore decided to direct that the access rules and charging methodology will take effect immediately from the date of approval, in accordance with SLC 11A(15). We expect IUK to publish the approved access rules on its website by 18 March 2019.

We will continue to monitor the arrangements and welcome stakeholder feedback. We expect IUK to keep the Access Rules under review to ensure arrangements remain appropriate.

Yours sincerely,

David Hall,  
**Head of European Markets**

## ANNEX – 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 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. Following such a review and in accordance with SLC11A paragraph 11, on 17 December 2018 IUK submitted its proposed modified Access Rules to the Authority for approval.
3. SLC 11A paragraph 5 requires that the Access Rules 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 Access Rules objectives’).
4. Having regard to the relevant Access Rules objectives set out in SLC 11A paragraph 4, and to our principal objective and statutory duties, the Authority considers that IUK’s proposed modified Access Rules meet the relevant Access Rules objectives.
5. The Authority hereby directs, pursuant to SLC 11A paragraph 14, that IUK’s proposed modified Access Rules are approved.
6. This Direction will come into effect from the 18 March 2019, at which point the proposed Access Rules will replace the existing Access Rules. This Direction shall remain in effect until the Authority revokes or varies the Direction in writing upon reasonable notice.

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David Hall

**Head of European Markets**

**Signed on behalf of the Authority and authorised for that purpose by the Authority on 15 March 2019**