# Interconnector Limited

# Charging Methodology related to the Interconnector Access Agreement and Interconnector Access Code May 2024

# 1 Introduction

Interconnector is required[1] to prepare and submit for the respective National Regulatory Authority ("NRA") approval, a Charging Methodology for access to its interconnector. Applicable law[2] outlines rules on the application of a reference price methodology, the associated consultation and publication requirements as well as rules for the calculation of prices for CAM Standard Capacity Products[3].

This document sets out the methodology that Interconnector will apply to charging for transportation services provided under an Interconnector Access Agreement (the "IAA") and the Interconnector Access Code (the "IAC"). Capitalised terms not defined in this document have the meaning given in Appendix B to the IAA.

Any available capacity will be offered as products with standard durations by Interconnector by means of an Allocation Mechanism (CAM auctions or other Allocation Mechanisms such as Implicit Allocation or a Subscription Process subject to relevant NRA approval). The IAA and IAC are NRA approved.

## 1.1 Background

Interconnector provides gas transportation services directly under the IAA.

The IAA is a contract that enables Shippers to access and use the transportation system through booking both long term and short term entry and exit capacity dependent on availability.

To access IAA Capacity a prospective Shipper signs an IAA and the terms of that agreement and the IAC have effect between Interconnector and the Shipper from that date. Any person can sign up for these transportation services subject to meeting the criteria set out in the IAA to be a Shipper.

## 1.2 Units

Charges and prices are expressed as follows:

- Entry Capacity – pence per kWh per hour or cent per kWh per hour or pence per kWh per day or cent per kWh per day
- Exit Capacity – pence per kWh per hour or cent per kWh per hour or pence per kWh per day or cent per kWh per day
- Buy-back Prices – pence per kWh per hour or cent per kWh per hour or pence per kWh per day or cent per kWh per day
- Monthly Administration Fee – Pounds sterling or Euros
- Imbalance Charges – Pounds sterling or Euros
- Commodity Charges – pence per kWh or cent per kWh

[1] By Article 15/5bis, § 15 of the Belgium Gas Act and Standard Licence Condition 10 of the GB Gas Interconnector Licence.
[2] Regulation (EU) 2017/460 and Regulation (EU) 2017/460 as amended by the Gas (Security of Supply and Network Codes) (Amendment) (EU Exit) Regulations 2019 and the Gas Tariffs Code (Amendment) (EU Exit) Regulations 2019.
[3] Regulation (EU) 2017/459 ("CAM") defines Standard Capacity Products as Yearly, Quarterly, Monthly, Daily and Within Day capacity products.

Interconnector offers capacity in kWh/h and all capacity prices and related charges are calculated as pence per kWh/h per hour (p/(kWh/h)/h) or cent per kWh per hour (c/(kWh/h/h) or pence per kWh/h per day (p/(kWh/h)/day) or cent per kWh/h per day (c/(kWh/h)/day. For capacity products offered on PRISMA, the runtime price is calculated using the number of hours in the relevant runtime. Capacity offered via an Implicit Allocation Mechanism ("IAM") will be in p/(kWh/h)/h or (c/(kWh/h/h) or p/(kWh/h)/day or (c/(kWh/h)/day. Capacity prices and charges will be calculated using the relevant p/(kWh/h)/h or (c/(kWh/h/h) or p/(kWh/h)/day or (c/(kWh/h/h) and the hours or days in the billing period.

Invoiced amounts will be either in Pounds Sterling to the nearest penny or Euros to the nearest cent.

## 2 Capacity Prices

### 2.1 General Principles

Entry and Exit Capacity will be made available by Interconnector for sale under an IAA by means of an Allocation Mechanism (CAM auctions or other Allocation Mechanisms e.g. Implicit Allocation or a Subscription Process subject to relevant NRA approval). In any given Allocation Mechanism the same terms and conditions apply to all Shippers.

Prices will be published on Interconnector's website (and other relevant platforms) in advance of the relevant Allocation Mechanism. Annex 1 outlines the Interconnector publication timetable and how Implicit Allocation products will be priced relative to CAM Standard Capacity Products.

All references to prices in this document relate to either the reserve price if the capacity is offered by means of an auction, or the capacity prices if offered by means of another Allocation Mechanism. All related charges (shown in section 1.2) will be published in the Charging Statement[4].

### 2.2 Price for Capacity

#### 2.2.1 General Principles

The price for capacity sales for Entry and Exit Capacity will be set by Interconnector to ensure objective and non-discriminatory treatment across all Shippers taking part in capacity sales.

The price will be fixed at the time of allocation providing price certainty to Shippers. For products to be used in a future year, this fixed price will be subject to annual indexation.

The key factors determining the prices are:

- Competitive forces and the prices of competing and complementary services;
- Operating costs for operating and maintaining the company and its assets;
- Capital expenditures required to maintain the service;

[4] The "Charging Statement" sets out Interconnector's charges related to the Interconnector Access Agreement and Interconnector Access Code. This is available at https://www.fluxys.com/en/natural-gas-and-biomethane/empowering-you/tariffs/tariff_interconnector

- Projected customer demand for Interconnector capacity and the forecast volume of both long term and short term sales under a range of market scenarios; and
- A risk premium applied to the yearly standard capacity product reflecting the benefits of certainty regarding the level of the price. The level of the premium will be published in the Charging Statement.

An additional element governing Interconnector's finances is a financial control under the Belgian Gas Act. This control is governed by the Belgian NRA, CREG, and establishes a safeguard against excess profit.

Interconnector will set prices which are competitive and responsive to market forces. The prices will be attractive to Shippers, and will reflect the value of the services.

Whilst ensuring no undue discrimination, the price can differ for different Entry and Exit points, types of capacity, durations of time and capacity periods to reflect the different underlying market and cost conditions.

### 2.2.2 Auctions on PRISMA

For any given auction, the price paid for Entry Capacity and Exit Capacity will be the reserve price (subject to indexation, if applicable) plus any premium bid at the time of the allocation process.

For ascending clock auctions held on PRISMA, the determination of the large price step shall seek to minimise as far as reasonably possible, the length of the auction process. The determination of the small price step shall seek to minimise, as far as reasonably possible, the level of unsold capacity where the auction closes at a price higher than the reserve price.

### 2.2.3 Price for Capacity Products with a duration less than one year

The same principles as outlined in 2.2.1 will be used to determine the level of the price multipliers for each Entry and Exit Capacity product less than a year in duration relative to the annual price for firm capacity. This includes, but is not limited to, the multipliers for CAM Standard Capacity Products.

The multipliers for the Quarterly, Monthly, Daily and Within Day CAM Standard Capacity Products published as set out in Table T2 in Annex 1 shall be no higher than the following caps:

Table T1: CAM Standard Capacity Product multiplier caps

| | |
|---|---|
| Quarterly | 1.5 |
| Monthly | 3 |
| Daily | 6 |
| Within Day | 6 |

### 2.2.4 Principles for the price structure of any Allocation Mechanism

The main principles for any Allocation Mechanism may include but are not limited to the following:

- A booking incentive may be offered. The booking incentive would be applied to any eligible booking to determine the total payable capacity charge including the incentive. Booking incentives may, for example, be offered to encourage bookings that are longer in duration to support the financial stability of the Interconnector, or combination bookings. Any booking incentive will be published in the Charging Statement in advance of the relevant Allocation Mechanism.

- A Capacity Transaction for a Firm Annual Capacity Product for 5 or more successive Gas Years benefits from a "lowest price guarantee" in that the Capacity Charge is the lower of: (i) the sum of the price and the premium; and (ii) the lowest price for which such Firm Annual Capacity Product is allocated in a CAM auction via PRISMA auction for that Gas Year or if there is no allocation for that Gas Year, the lowest Interconnector price for that Firm Annual Capacity Product for that Gas Year.

### 2.3 Indexation

Entry or Exit capacity prices to apply in a future year for all capacity that is sold under any Allocation Mechanism will be subject to annual indexation as provided for in the IAC and outlined in the Charging Statement.

## 3 Buy-back Prices

Where Interconnector has sold Entry or Exit Capacity via an oversubscription mechanism, if, at any time, aggregate nominations exceed, or are predicted to exceed, the physical capability of the system, Interconnector will initiate the Buy-back process in accordance with IAC Section C. Interconnector will determine the quantity and category of capacity that it needs to buy back from Shippers to reduce the aggregate nominations to within the physical capability of the system.

### 3.1 Maximum Buy-back Price

All Shippers will be informed, via Interconnector's website and the Interconnector Information System, when Interconnector needs to buy back capacity. Interconnector shippers will be invited to sell capacity back to Interconnector in a pay-as-bid auction known as Voluntary Buy-back ("VBB").

Under a VBB auction, Interconnector will accept offers from Interconnector Shippers subject to paying no more than the Maximum Buy-back Price. This is the price that Interconnector will pay for Entry and Exit Capacity from the aggregate of offered Entry Capacity and Exit Capacity from Shippers. This price will be calculated on the relevant Gas Day as the weighted average price paid for that day's Entry Capacity and Exit Capacity plus a Buy-back premium. The premium is set to strike a reasonable risk-reward balance and limit the exposure of Interconnector (see the Charging Statement for details of the level of the Buy-back premium).

### 3.2 Forced Buy-back Price

Forced Buy-back will be initiated on Shippers, if:

- there is unfulfilled Buy-back requirement following VBB, due to insufficient capacity being offered to satisfy the Buy-back requirement at prices up to the Maximum Buyback Price, or
- the Buy-back requirement occurs when the net OS revenue account has reached its maximum deficit (see next section), or
- the Buy-back requirement occurs after 21:00 (UKT) / 22:00 (CET) within day as there is insufficient time to run a VBB auction and implement the resulting re-nominations.

When Interconnector initiates Forced Buy-back, Shippers who bought Daily or Within Day capacity will have such capacity pro-rated downwards to reduce aggregate nominations to within the physical capability of the Interconnector system and Interconnector will pay a Shipper for the reduction in Entry Capacity and Exit Capacity (taking into account any capacity already offered and accepted in the VBB auction) at the Forced Buy-back Price. This price shall be the price paid by the Shipper for such capacity plus a premium equal to 5% of the weighted average price paid for all Entry Capacity and Exit Capacity for that day.

This Forced Buy-Back premium recognises that capacity has had to be forcibly bought-back from Shippers, but is low enough to ensure that there is an incentive for Shippers to bid in the VBB auction (rather than wait for Forced Buy-back).

### 3.3 Net OS Revenue Account

Interconnector will keep track of an account ("Net OS Revenue Account") which will be equal to the revenue from OS Capacity sales, on a cumulative basis over the Gas Year, minus any payments made for Buy-back during that time. This account will be allowed to go negative (if Buy-back costs exceed sales revenue) up to a limit set out in the Charging Statement. At this level, if further Buy-back is required, Interconnector will implement the Forced Buy-back process.

It is thought to be very unlikely that the limit will be reached however, setting this limit of exposure enables Interconnector to know in advance the risk to which they would be exposed for Buyback. In addition, there is an exposure to the 5% premium to be paid in Forced Buy-back to be taken into account in the event that this scenario is reached.

## 4 Monthly Administration Fee

A Monthly Administration Fee[5] is payable by each Shipper under an IAA. This covers Interconnector's ongoing costs supporting contract administration, principally a Shipper's access to Interconnector's Information System (e.g. user accounts, requests for help, interface issues, e-learning modules, etc.), on-going credit review and invoicing.

The Monthly Administration Fee is set out in the Charging Statement.

[5] The monthly administration fee is a non-transmission service.

## 5 Balancing Charges

A Shipper has the obligation to ensure that its intended inputs and intended outputs of Natural Gas are balanced each hour of the Gas Day. Interconnector operates an operational balancing account at Bacton and Zeebrugge under which allocations to a Shipper will equal its relevant nominations hence Shippers will be in balance. In exceptional circumstances (e.g. an operational balance account is not being applied), where there is a difference between a Shipper's allocated Inputs and Outputs such differences will be dealt with as per Section E and F of the IAC.

## 6 Commodity Charges

Interconnector procures natural gas and electricity for the operation of the Interconnector Transportation System, which includes:

- Fuel Gas for the operation of compressors and boilers at Bacton and heaters at Zeebrugge;
- HV electricity for the operation of the compressors at Zeebrugge
- Gas to maintain the pipeline inventory within acceptable operational limits, allowing for shrinkage.

Interconnector will estimate the cost of gas and electricity to transport a unit of gas through the Transportation System and convert these into a suitable commodity charge by applying a Commodity Charge to each Shipper's Entry Allocations. The Commodity Charge will be defined for each Connection Point .

Interconnector may apply a Supplementary Commodity Charge to a Shipper's Entry Allocations, as outlined in the IAC, where a relevant service has been requested by that Shipper. Details of relevant services will be published in the Interconnector Charging Statement and may include, for example, carbon offsetting.

The Interconnector Commodity Charges will be set out in the Charging Statement and the Interconnector website.

## 7 Annual Distribution of Net OS Revenues

At the end of the Gas Year, if the Net OS Revenue Account is negative, then Interconnector will bear 100% of this loss and return the balance to zero. At the end of the Gas Year, if the Net OS Revenue Account is positive, then this amount will be paid out so that the balance returns to zero. 25% will be paid to Interconnector and 75% (the Net Revenue Share) will be distributed to all Shippers based on their allocated flow over the year.

**ANNEX 1: Interconnector pricing publication timetable**

Prices will be published on Interconnector's website (and other relevant platforms) in advance of the relevant Allocation Mechanism. Interconnector will publish prices as follows:

A.1 CAM Standard Capacity Products

Table T2: CAM Standard Capacity Product pricing information to be published 30 days in advance of the Annual CAM auction

| PUBLICATION | ANNUAL | QUARTERLY | MONTHLY | DAILY | WITHIN DAY |
|---|---|---|---|---|---|
| At least 3 days before the Annual CAM auction | Actual | Binding multiplier cap for the subsequent gas year | Binding multiplier cap for the subsequent gas year | Binding multiplier cap for the subsequent gas year | Binding multiplier cap for the subsequent gas year |

The actual price for the Monthly, Daily and Within Day CAM Standard Capacity Products will be published as follows:

Table T3: Timing of the publication of the actual prices for Monthly, Daily and Within Day CAM Standard Capacity Products in advance of the relevant CAM auction

| PUBLICATION | QUARTERLY | MONTHLY | DAILY | WITHIN DAY |
|---|---|---|---|---|
| Prices published in advance of the relevant CAM auction | 3 days | 1 day | 6 hours | 1 hour |

A.2 CAM Conditional Firm Products

The binding cap set out in Table T2 for CAM Standard Capacity Products will also apply to the equivalent duration Condition Firm Products for capacity sales transacted in the same gas year.

The actual Monthly, Daily and Within Day Conditional Firm Products offered via CAM auction will be published in line with Table T3.

A.3 Implicit Allocation

The binding cap set out in Table T2, applicable for CAM Standard and Conditional Firm Capacity Products, will also apply to the equivalent duration Implicit Allocation products for capacity sales transacted in the same gas year.

Non-standard Implicit Allocation product prices will fit within the binding caps of the CAM Standard and Conditional Firm Capacity Products, using a composite approach based on shorter duration products where applicable.

The price of Implicit Allocation products longer than one month in duration will be published at least 3 days in advance of the relevant sales offering.

The price of Implicit Allocation products one month in duration or less will be published at least 6 hours in advance of the relevant sales offering.