



8 April 2014

Dear Stakeholder,

**Consultation on the ZIGMA Model and Implementation of the Capacity Allocation Mechanism and Balancing EU Network Codes**

Interconnector (UK) Ltd (IUK), Fluxys Belgium and National Grid Gas (NGG) are jointly seeking your views on their proposals outlined in the Concept Document accompanying this consultation to amend, where appropriate, their arrangements.

The Concept Document sets out:

- The market model and service offer for IUK and Fluxys Belgium's proposed cross-border Entry-Exit zone called ZIGMA (Zeebrugge beach Interconnector Gas Market Area). ZIGMA brings together the Interconnector Pipeline, Zeebrugge area and Zeebrugge Beach which becomes the virtual trading point within the zone
- The key concepts for implementing the Capacity Allocation Mechanism (CAM) Network Code across the 3 Transmission System Operators (TSOs) that form part of the Interconnector chain (i.e. NGG, IUK and Fluxys Belgium)
- The key concepts for implementing the Balancing (BAL) Network Code within ZIGMA

The Concept Document forms the first stage in implementation of these proposed changes and is not intended to be legally binding on IUK, Fluxys Belgium or NGG. The second stage will involve the TSOs modifying their individual contracts where appropriate<sup>1 2</sup> to reflect the changes and outcomes from this consultation.

This document provides background information and sets out the consultation process, timeline and how to respond.

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<sup>1</sup> In relation to the relevant European Network Codes / Regulation, (CAM and BAL)

<sup>2</sup> In relation to ZIGMA as relevant for IUK and Fluxys Belgium



## PART 1: BACKGROUND INFORMATION

**IUK** is the owner and operator of the Interconnector Pipeline between Bacton in the UK and Zeebrugge in Belgium. The bi-directional pipeline provides a strategic link between the UK and Continental European gas markets. As such, IUK plays an important role in the realisation of the single European gas market and in providing security of supply to both GB and continental European markets.

**Fluxys Belgium** is the operator of the infrastructure for gas transmission, gas storage and terminalling of liquefied natural gas (LNG) in Belgium. The company is an affiliate of Fluxys, a Belgium-based, fully independent gas infrastructure group with assets throughout Europe. Besides its assets in Belgium, Fluxys' partnerships include ownership in the Interconnector and BBL pipelines linking the UK with mainland Europe, the Dunkirk LNG terminal under construction in France, the NEL and TENP pipelines in Germany, the Transigas pipeline in Switzerland and the TAP pipeline from Turkey to Italy to be constructed so as to bring gas coming from Azerbaijan to Europe.

The Zeebrugge area is a cornerstone of security of supply in north-western Europe. Together with Emden in northern Germany, Zeebrugge is the main supply area for natural gas in north-western Europe, Zeebrugge's reception capacity corresponding to around 10% of the total border capacity needed to supply the European Union.

**NGG** is the owner and operator of the gas National Transmission System (NTS) in Great Britain that connects with the Interconnector Pipeline at Bacton. The NTS plays an important role in facilitating the competitive gas market and helping to provide the UK with a secure gas supply. It is a network of pipelines, presently operated at pressures of up to 94 barg, which transports gas safely and efficiently from coastal terminals and storage facilities to exit points from the system. Exit points are predominantly connections to Distribution Networks (DNs), but also include storage sites, and direct connections to power stations, large industrial consumers and other systems, such as interconnectors to and from other countries.

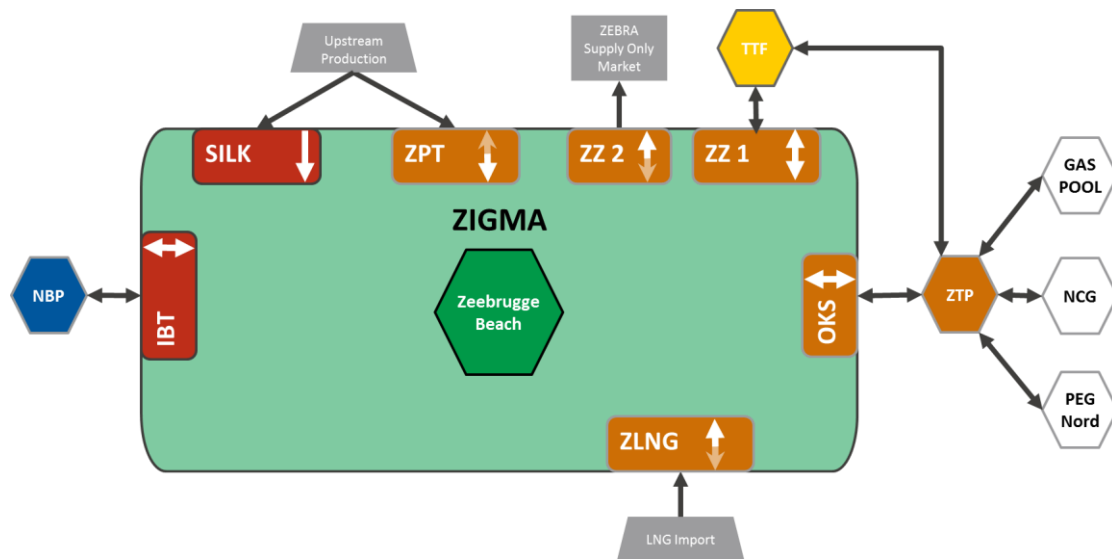


**PART 2: MAIN CONCEPTS**

**ZIGMA market model (developed by IUK and Fluxys Belgium)**

ZIGMA is a proposed cross-border Entry-Exit zone, bringing together the Interconnector Pipeline, the Zeebrugge area and Zeebrugge Beach:

- ZIGMA connects with trading markets NBP, ZTP and TTF
- ZIGMA provides sourcing possibilities via ZPT, SILK and LNG
- ZIGMA connects to downstream markets in the UK, Belgium and the Netherlands
- Zeebrugge Beach will become the virtual trading point of ZIGMA. Entry and Exit services at any ZIGMA point will give access to/from Zeebrugge Beach
- ZIGMA provides a market-based balancing system, enabling shippers to use flexibility services



**Figure 1: The proposed new cross-border Entry-Exit zone, ZIGMA (Zeebrugge beach Interconnector Gas Market Area)**

The Concept Document contains more information on ZIGMA, more specifically regarding the service offer, the roles within ZIGMA, the contracts and treatment of existing contracts, the balancing system and the quality compliancy service.



**Capacity Allocation Mechanisms (CAM) and Balancing (BAL) Implementation (developed by IUK, NGG and Fluxys Belgium)**

To improve the regulatory framework for a liberal wholesale energy market, the Third Energy Package (a package of legislative measures) was adopted in 2009. The Third Energy Package includes Regulation (EC) No 715/2009, which is supplemented by Network Codes on Capacity Allocation Mechanisms (CAM) and Balancing (BAL).

CAM introduces rules to ensure efficient, transparent and non-discriminatory access to infrastructure networks. Specifically, CAM establishes rules relating to how capacity can be offered and allocated, including standard cross-border capacity products and auction rules. It also includes aspects of TSO cooperation, in order to facilitate capacity sales, including commercial and technical rules relating to post-auction capacity allocation. CAM is to be implemented by 1 November 2015.

BAL sets out harmonised rules on balancing to give Network Users greater flexibility and greater certainty in relation to their balancing positions across adjacent balancing zones. The rules aim to financially incentivise Network Users to balance their portfolios via cost-reflective balancing charges, facilitated by trading platforms established by the TSOs. BAL is to be implemented by 1 October 2015.

The Concept Document covers CAM and BAL implementation. From 1 November 2015, at the Interconnection Points (IPs) subject to CAM, all available capacity will be offered as a bundled product where possible. For example NGG exit capacity at IBT and ZIGMA entry capacity at IBT would be offered as a bundled product and could be purchased together. Any unmatched capacity on either side of an IP will be offered as an unbundled product.

Capacity will be auctioned on the PRISMA auction platform, using the auction algorithms defined in CAM. Following a successful bid for bundled capacity, the capacity can be used according to the contracts in force with each TSO e.g. if a Shipper bought bundled NGG exit capacity and ZIGMA entry capacity at IBT, then the use of the NGG exit capacity would be subject to the contract signed with NGG whilst the use of the ZIGMA entry capacity would be subject to the contract signed with IUK. A single nomination can be submitted to nominate the flows in both systems (exit from one system and entry to the other system) for bundled capacity<sup>3</sup>.

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<sup>3</sup> It is the intention that single nominations will also be accepted for unbundled capacity as long as the counterparty on both sides of the IP is the same entity. This is subject to further detailed discussion and analysis by the TSOs.



**PART 3: PROCESS AND INDICATIVE TIMELINE**

Below is the indicative timetable that we propose to follow for CAM and BAL implementation:

<b>Date</b>	<b>Action</b>
<b>8 April 2014</b>	Consultation opens
<b>25 &amp; 28 April 2014</b>	Industry Workshops on ZIGMA <ul style="list-style-type: none"> <li>• Brussels (25 April 2014)</li> <li>• London (28 April 2014)</li> </ul>
<b>6 May 2014</b>	Consultation closes
<b>13 May 2014</b>	Non-confidential responses published
<b>May 2014</b>	IUK, Fluxys Belgium and NGG review responses and refine proposals
<b>Late 2014</b>	NGG UNC mod consultation (Summer 2014) Fluxys Belgium STA, ACT, TP consultation (Late 2014) IUK IAA consultation (Late 2014)
<b>1 November 2015</b>	Implementation (subject to the required agreements and approvals and subject to process and system changes)

**PART 4: YOUR FEEDBACK**

We are interested in hearing your views on the proposals outlined in the Concept Document and your responses to a number of specific questions:

**ZIGMA questions (IUK and Fluxys Belgium)**

1. What is your general feedback on ZIGMA?
2. Do you agree that the proposed balancing model is compliant with the BAL Network Code?
3. We are evaluating whether the balancing contract is in a separate contract or within the IUK Access Agreement (IAA). Do you have any preference?
4. The Concept Document meets the requirement in article 26(4) of BAL to consult Stakeholders on Within Day Obligations (WDOs). Do you agree that the WDOs detailed in Appendix 4 are an appropriate set of WDOs?



**CAM questions (IUK, Fluxys Belgium and NGG)**

5. Do you agree that the proposals set out in Sections 3, 4 and 5 are compliant with the CAM Network Code?
6. The Concept Document meets the requirement in article 8(9) of CAM to consult Stakeholders on the capacity to be set aside for short-term auctions. Do you support the quantity of capacity to be set aside for short-term auctions defined in sections 3.4.5 and 4.4.3 of the Concept Document?
7. Do you support single-sided nominations being accepted for unbundled capacity if the same entity owns the capacity on both sides of the IP?
8. Do you support the proposal that surrendered capacity that is not reallocated in an auction is not automatically rolled forward to future auctions?
9. Do you have any other feedback on the Concept Document?

We would appreciate the comments of all interested parties on the Concept Document. Please send your response to [consultations@interconnector.com](mailto:consultations@interconnector.com) including [info.transport@fluxys.com](mailto:info.transport@fluxys.com) and [box.transmissioncapacityandcharging@nationalgrid.com](mailto:box.transmissioncapacityandcharging@nationalgrid.com) in copy by 17:30 on 6 May 2014. Please ensure that a “read receipt” is requested to confirm that your response has been received. Please note that any responses not marked confidential may be published on IUK’s, Fluxys Belgium’s and NGG’s websites. Confidential responses may be shared with Ofgem and CREG at their request.

If you wish to clarify any aspect in relation to this letter, or have any questions, please contact in the first instance Lucy Manning (IUK) on +44 (0)20 7092 6594. Appendix 1 contains full details of how to contact each TSO.

We look forward to hearing from you.

Yours faithfully

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IUK

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Fluxys Belgium

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European Policy Manager

National Grid Gas



APPENDIX 1: TSO CONTACT DETAILS

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