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*Promoting choice and  
value for all customers*

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14 August 2006

Dear Roger,

**Issuing of notice to Interconnector (UK) Limited under condition 10 of the gas interconnector licence granted to Interconnector (UK) Limited in respect of the gas interconnector between Bacton and Zeebrugge**

On 14 August 2006 Interconnector (UK) limited (IUK) was issued with a gas interconnector licence for the gas interconnector between Bacton and Zeebrugge.

In anticipation of its gas interconnector licence IUK wrote to the Department of Trade and Industry (DTI)<sup>1</sup> on 11 July 2005 requesting confirmation that paragraphs 2 and 4-11 of Standard Licence Condition 10 of their gas interconnector licence (SLC 10) would be disapplied when their interconnector licence is issued and that a notice would be issued by the Authority<sup>2</sup> in relation to SLC 10 sub-paragraph 17(b). This was to cover contracts for access to the original interconnector capacity of 20 bcm/year of forward flow from Bacton, in the United Kingdom, to Zeebrugge, in Belgium, and 8.5 bcm/year of reverse flow from Zeebrugge to Bacton. This request also covered contracts for access to capacity in the two subsequent enhancements to the interconnector capacity. These enhancements gave an additional 8 bcm/year and 7 bcm/year of reverse flow capacity which were completed in November 2005 and scheduled for completion in late 2006, respectively.

On 27 July 2005, DTI responded to IUK confirming that the May 1995 letter from the Commission, which was signed by G Rocca, granting IUK exemption from Articles 85(1) of the EC Treaty and 53(1) of the EEA Agreement, can be considered to be 'approval of a charging methodology' for the purpose of SLC 10.

Following that IUK began assessing whether it was feasible to proceed with a third enhancement to reverse flow, which is planned to add 2 bcm/year of capacity by late 2007. As such IUK wrote to Ofgem on 28 April 2006, in advance of their licence being

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<sup>1</sup> The Secretary of State for the DTI determined the Interconnector licence conditions as set out in section 150, Energy Act 2004. He also commenced prohibition and Ofgem's power to grant licences

<sup>2</sup> The terms of the Authority and Ofgem are used interchangeably in this document. Ofgem is the office of the Authority.

issued, requesting that paragraphs 2 and 4-11 of SLC 10 be disapplied in respect of contracts for access to capacity on the interconnector, in addition to the disapplication notice referred to in DTI's letter of 27 July 2005, including in particular the proposed third enhancement.

Following a request from Ofgem for further information IUK wrote to Ofgem on 25 May 2006 to confirm that access to the capacity in the third enhancement will all be governed under the transportation contracts entered into by IUK and its customers prior to 1 July 2004 and that these contracts received clearance from the European Commission in May 1995. As noted above, DTI have accepted that this can be considered as approval of a charging methodology in respect of these contracts. IUK also confirmed that none of the provisions of paragraph 20 of SLC 10, which list the circumstances in which the Authority can withdraw or revoke a notice given under sub-paragraph 17(b) of SLC 10, are applicable.

On the basis of the further information supplied to Ofgem on 25 May 2006 by IUK, Ofgem wrote to IUK on 2 June 2006 stating that Ofgem was minded to issue a notice under SLC 10 sub-paragraph 17(b) to IUK once IUK has been granted a gas interconnector licence. Ofgem stated that the notice would apply to contracts in respect of access to the proposed third enhancement on the understanding that IUK has confirmed that:

- i) access to the proposed increase in capacity will be governed by one or more contracts entered into before 1 July 2004 as required by sub-paragraph 17(a) of SLC 10; and
- ii) none of the grounds for withdrawing or revoking a notice as set out in sub-paragraph 20 of SLC 10 are relevant.

As provided for in paragraph 20 of SLC 10, Ofgem may withdraw or revoke a notice issued under sub-paragraph 17(b) of SLC 10 if any of the circumstances set out in that paragraph are or become applicable.

Ofgem is therefore issuing to IUK a notice providing that standard licence conditions 2 and 4 - 11 of IUK's licence do not apply to IUK contracts with BG International Limited, BP Gas Marketing, British Gas Trading Limited, ConocoPhillips (U.K.) Limited, Distrigaz S.A., EDF Trading Limited, Essent Energy Trading BV, OAO Gazprom, Gaz de France, RWE Trading GmbH, Norsk Hydro Energy BV, E.ON Ruhrgas AG, Eni SpA, Total Gaz Electricité Holdings France and Statoil Gas Trading Limited on terms entered into before 1 July 2004 and are suspended from operation, as set out in the notice attached to this letter and the schedule thereto.

Yours sincerely



**Robert Hull**  
**Director, Transmission**