

# IUK Stakeholder Consultation on the Implementation of New Congestion Management Procedures

## Consultation

Regulation of the European Gas Market is changing. These changes mean that the ways in which companies like IUK make gas transportation services available will need to adapt, and IUK is committed to working with industry stakeholders throughout this process.

Recently IUK undertook a [Stakeholder Consultation](#) seeking your views on our proposals to amend our business rules, so that we may comply with the new regulatory framework and build on our existing services.

IUK is pleased to announce that 12 stakeholders replied to the consultation. Each response is gratefully received and will help us determine the best way to deliver our services. You can read the 8 non-confidential responses [here](#). A summary of all 12 responses is provided below.

## Your views

We asked for your views on our proposal to implement new Congestion Management Procedures (CMP), as well as your responses to a number of specific questions.

Here we summarise, and respond to, your comments on our proposals to introduce:

- Oversubscription and Buyback of capacity
- Surrender of capacity
- A “Long Term Use It Or Lose It” mechanism
- Greater transparency

### *Oversubscription and Buyback*

One feature of CMP is the overselling of system capacity, and the buying back of capacity that cannot be provided to those who paid for it. Our proposal would allow parties to buy Interconnector capacity directly from IUK, in addition to using the existing secondary market mechanisms, on a day-ahead basis via an auction.

We requested and received your comments on the following aspects of our proposal:

- Oversubscription Capacity (“OS Capacity”)
  - Quantity to be made available
  - Reserve price
  - Sales platform
  - Product-type
- Buyback (“BB”)
  - Overall proposal
  - Limitation on exposure to BB costs on any specific day to the aggregate OS revenue over a pre-defined period

<b>Our Proposal</b>	<b>Your Views</b>
OS Quantity	7 "agree with the proposal" 2 "less should be made available" 2 "we don't have enough information to judge" 1 no comment
OS Price	9 "agree with the proposal" 2 "the price is too high" 1 no suggestion made
OS Platform	7 "choose the pragmatic and cost-efficient solution" 4 "use the Prisma platform from Oct '13" 1 no comment
BB Proposal	7 "agree with the proposal" 3 "why does IUK profit from OS Capacity sales and have no BB risk?" 1 "the timetable and notification method are inadequate" 1 no comment
BB Limitation	3 "cap should be set to 3 months OS revenue" 2 "cap should be set to 1 month OS revenue" 3 "agree with having a cap, but time-frame to be considered further" 2 "disagree with having a cap on exposure to BB costs" 2 no comment

IUK also received a number of comments and queries which we would like to take this opportunity to respond to:

<b>Our Proposal</b>	<b>Your Comments and Queries Answered</b>
OS Quantity	<p><i>"No OS Capacity should be made available if there is capacity available on the secondary market"</i></p> <p>Under CMP, IUK is obliged to make OS Capacity available when all Firm Capacity is sold, regardless of capacity being offered on the secondary market.</p> <p><i>"It's not adequate to just use flows for today to predict nominations for tomorrow, you should also use day-ahead market prices at Zeebrugge and NBP"</i></p> <p>IUK's statistical analysis demonstrates that "last observation carried forward" is the most accurate forecasting tool available. However, IUK will use its judgement to reduce the quantity of OS Capacity made available if market information indicates that the forecast will not be accurate and the risk of Buy-back would be unacceptably high for all parties.</p> <p><i>"It's not clear why IUK would not offer uncapped OS Capacity if the 'last view carried forward' suggests more than 15% of capacity can be made available"</i></p>

Statistical modelling indicates that the risk of Buy-back would be unacceptably high if more than 15% of capacity is offered as OS.

*"The product could be made more attractive, by being less risky, if the percentage was reduced to 10% or 5%"*

IUK judges that it is possible to manage the risk associated with making the equivalent of 15% of technical capacity available as OS Capacity, dependent on flow profiles. Other responses to the consultation indicate that 15% is an acceptable limit and that the product is reasonably attractive to the market.

OS Price *"A uniform reserve price for both forward and reverse flow may not be consistent with the aim of avoiding cross-subsidisation"*  
IUK will offer the same service in both flow directions therefore IUK will price these services equally.

BB Proposal *"Who will under-allocation affect?"*  
IUK is working to ensure that existing long-term capacity contracts are not negatively impacted by the over-selling of capacity. Consistent with this aim, under-allocation/forced Buy-back will apply to OS Capacity only.  
  
*"Why does IUK receive a share of the OS profits without taking a share of the Buy-back risk?"*  
IUK is reviewing this concern and possible modifications to the Buy-back proposal with Ofgem and CREG.

BB Limitation *"Under-allocation when the Buyback limit is reached contradicts the principle that OS Capacity must be Firm in all circumstances"*  
Given that total Firm Capacity offered will exceed the physical limitations of the pipeline, this capacity unfortunately cannot be Firm in all circumstances. Under-allocation will be used as a last resort.  
  
*"Risk should instead be managed by adjusting system parameters"*  
Buy-back would begin once all the possible system parameter adjustments have been made and there is no option but to buy back the capacity. IUK is faced with the realities of operating a single pipeline without the possibility of significant system parameter adjustments.

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### **In response to your feedback, IUK proposes to:**

- Clarify that, whilst the quantity of OS Capacity to be made available will be based on IUK's 'last observation carried forward' methodology, IUK may decide to lower the quantity of OS Capacity to be made available if it judges that the risk of Buy-back is too high.
- Confirm that a pay as bid auction will be run by IUK initially, and that joining PRISMA will be considered at a later stage.
- Consider modifications to the Buy-back proposal with Ofgem and CREG.

## *Surrender of Capacity for Re-sale*

Another feature of CMP is the introduction of a mechanism to enable our existing customers to surrender their capacity back to us for re-sale to another party.

<b>Our Proposal</b>	<b>Your Views</b>
Surrender	8 "agree with the proposal" 3 "surrender will not be used in favour of the secondary market, therefore no changes to the proposal are required" 1 "generally agree with the proposal, but do not think that incumbent Shippers should retain liability for their capacity after it is re-sold to a new party"

IUK suggests no change to our original proposal, but clarifies that liability for capacity will remain with the original Shipper post re-sale because it may be sold at a lower price than originally purchased.

## *Long Term Use It Or Lose It*

CMP also requires IUK puts in place a mechanism to monitor the long term use of capacity and remove systematically under-utilised capacity from Network Users who have not offered this capacity for sale under reasonable conditions. Capacity will only be removed if other Network Users have requested Firm Capacity but have been unable to acquire it.

<b>Our Proposal</b>	<b>Your Views</b>
LTUIOLI	6 "agree with the proposal" 5 "generally agree with IUK, but are concerned about what will be considered acceptable under the 'justification' step" 1 "generally agree with IUK, but do not think that incumbent Shippers should retain liability for their capacity after it is re-sold to a new party"

IUK acknowledges these concerns about the 'justification' step, but is not proposing to be more prescriptive regarding acceptable justifications. IUK will consider the justifications on a case by case basis before deciding if the issue should be escalated to the NRAs.

IUK suggests no change to our original proposal, but clarifies that liability for capacity will remain with the original Shipper post re-sale because it may be sold at a lower price than originally purchased.

## *Transparency*

IUK also proposed to enhance transparency through the publication of data relating to these new Congestion Management Procedures on our website and, where appropriate, the European Transparency platform.

<b>Our Proposal</b>	<b>Your Views</b>
Transparency	10 "agree with the proposal" 1 "concerned about the data provision to the NRAs" 1 no comment

IUK suggests no change to our original proposal in light of this feedback.

In addition to receiving your responses to specific questions, as detailed above, IUK gratefully received the following additional comments:

“**Overall**, the proposals **strike a fair balance** between protecting the legitimate contractual and commercial interests of existing IUK capacity holders and ensuring that, in the event that IUK Shippers cease to flow gas economically, IUK’s rules allow other Shippers to do so quickly and fairly”

“From a general perspective we think the proposals are **reasonable**”

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“We would like to underline the **unique nature of IUK** as a TSO required to implement Network Codes. IUK was constructed on the basis that the primary Shippers took all commercial risk for the project by signing 20 year ship or pay contracts. The structure was approved by the EU Commission.”

“As IUK is a **single pipeline**, flowing between **two Member States**, it requires careful consideration which **differs from other integrated network TSOs**.”

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“IUK flows represent by far the most **economically efficient** gas flows through any interconnection point in Europe ... To this extent; it is **arguable whether CMP implementation is necessary** in this case”

“Whilst recognising the mandatory nature of implementing CMP, **we do not believe that there is a congestion management problem on the Interconnector**.”

We value your feedback and look forward to holding more consultations in the future as we continue to develop changes in response to other areas of the new regulatory framework. Later on this year we will consult the market on the contract for purchasing additional capacity made available under these proposals.