



Sales of capacity for 1 October 2018 onwards

Products & Capacity Allocation Process

1 Introduction

This paper outlines our proposed product offering and capacity allocation process for this first sale of capacity for October 2018 onwards. In designing this process IUK has applied the requirements set out in our GB licence condition and Article 13 of the European Gas Regulation (EC) 715/2009. In addition IUK has been mindful of the principles promoted by the Capacity Allocation Mechanism (“CAM”¹) Network Code which applies from 1 November 2015. The timeline for the overall sales process is included in the Information Memorandum published on our website.

2 Products

IUK proposes to offer Annual Products and Quarterly Products. IUK’s proposed product offerings are designed to be aligned with market needs and feedback from this consultation will enable IUK to ensure the product offering is suitable. Attention has been paid to ensure that the capacity offered now does not impede IUK from implementing CAM in the future.

IUK will limit the capacity available for purchase in this sale to 80% of the Interconnector’s technical capacity for a duration of 12 years from 1 October 2018,² and will set aside the remaining 20% for short-term sales.³ This acknowledges the CAM principles which will apply from 1 November 2015 and ensures that sufficient capacity is retained for these principles to be applied from that date. IUK’s products will be available to all participating Shippers who meet the relevant criteria set out in the IUK access rules.

2.1 Annual Products

A Shipper can request a series of Annual Products (flat annual capacity) commencing from 1 October 2018. The minimum duration is 1 year and the maximum duration is 12 years. The request has to be for a whole number of Gas Years, i.e. 1 Oct 06:00 CET to 1 Oct 05:59 CET (end of Gas Day 30 September). A Shipper may make more than one request, e.g. X for 11 years plus Y for 4 years. Therefore Shippers can tailor their profile if they wish.

Capacity from BE to UK

Annual	IZT Entry	1 to 12 years from 1 October 2018	Yearly flat profile
Annual	IBT Exit	1 to 12 years from 1 October 2018	Yearly flat profile

Capacity from UK to BE

Annual	IBT Entry	1 to 12 years from 1 October 2018	Yearly flat profile
Annual	IZT Exit	1 to 12 years from 1 October 2018	Yearly flat profile

¹<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R0984&from=EN>

² This equates to 15 years from 2015 which is the time horizon specified in CAM.

³ See Article 8 (7) of CAM.

2.2 Quarterly Products

In combination with Annual Products booked for 5 years or more, a Shipper may request up to an additional 50% of the corresponding annual capacity, as a seasonal booking comprised of 2 Quarterly Products for the same duration:

- **Winter only: Q4 + Q1**
- **Summer only: Q2 + Q3**

The market is primarily focussed on the Winter (Q4 & Q1) or Summer (Q2 & Q3) Quarter combination but some specific needs exist for a longer seasonality (for instance to cover a period of production export). Therefore, we propose to offer an additional Quarter for sale in combination with the Winter or Summer Quarters and for the same duration.

Capacity from BE to UK

2-Quarters corresponding to the winter or summer season:

Q4 & Q1 (Winter)	IZT Entry	5 to 12 years from 1 October 2018	2x3 months flat profile from Oct to Mar
Q2 & Q3 (Summer)	IZT Entry	5 to 12 years from 1 October 2018	2x3 months flat profile from Apr to Sept
Q4 & Q1 (Winter)	IBT Exit	5 to 12 years from 1 October 2018	2x3 months flat profile from Oct to Mar
Q2 & Q3 (Summer)	IBT Exit	5 to 12 years from 1 October 2018	2x3 months flat profile from Apr to Sept

Additional 3rd Quarter:

Q1, Q2, Q3 or Q4	IZT Entry	5 to 12 years from 1 October 2018	1x3 months flat profile for Q1, Q2, Q3 or Q4
Q1, Q2, Q3 or Q4	IBT Exit	5 to 12 years from 1 October 2018	1x3 months flat profile for Q1, Q2, Q3 or Q4

Capacity from UK to BE

2-Quarters corresponding to the winter or summer season:

Q4 & Q1 (Winter)	IBT Entry	5 to 12 years from 1 October 2018	2x3 months flat profile from Oct to Mar
Q2 & Q3 (Summer)	IBT Entry	5 to 12 years from 1 October 2018	2x3 months flat profile from Apr to Sept
Q4 & Q1 (Winter)	IZT Exit	5 to 12 years from 1 October 2018	2x3 months flat profile from Oct to Mar
Q2 & Q3 (Summer)	IZT Exit	5 to 12 years from 1 October 2018	2x3 months flat profile from Apr to Sept

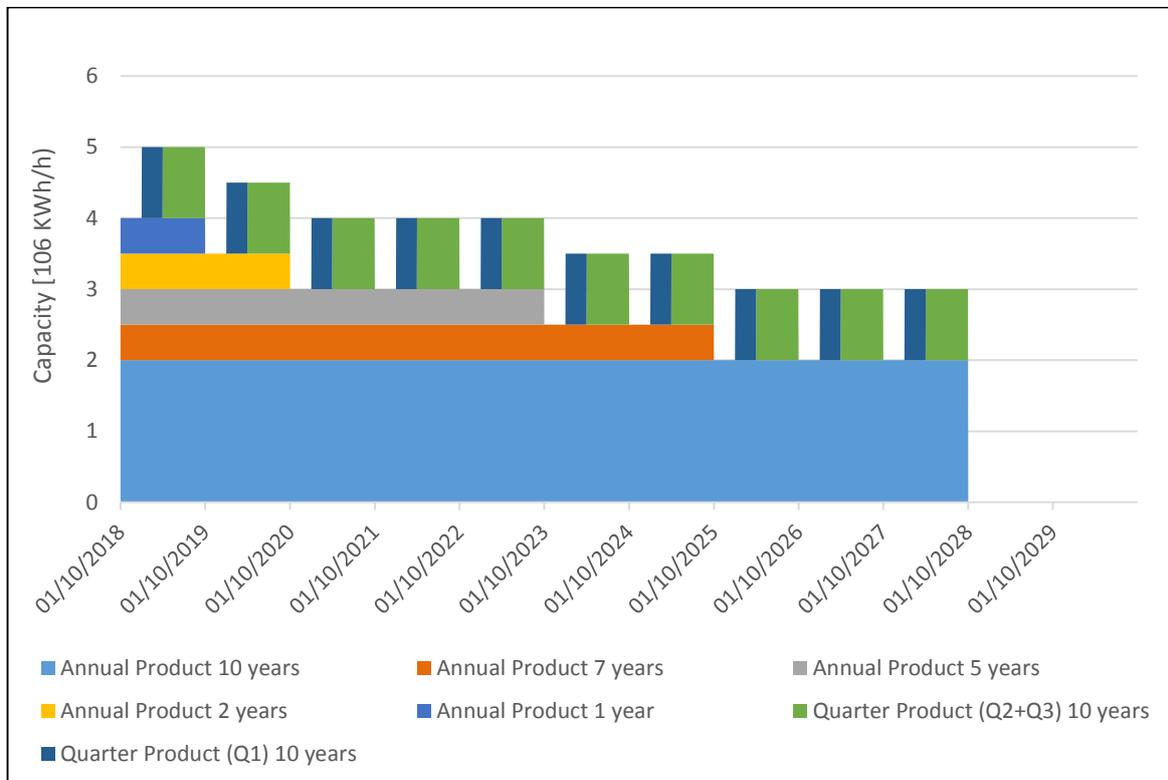
Additional 3rd Quarter:

Q1, Q2, Q3 or Q4	IBT Entry	5 to 12 years from 1 October 2018	1x3 months flat profile for Q1, Q2, Q3 or Q4
Q1, Q2, Q3 or Q4	IZT Exit	5 to 12 years from 1 October 2018	1x3 months flat profile for Q1, Q2, Q3 or Q4

Example of capacity profile of a Shipper for a given IP and a given direction

Subscription Item	Product Type	Duration	Quantity [MWh/h]	Remark
1	Annual Product	10 years	2000	
2	Annual Product	7 years	500	
3	Annual Product	5 years	500	
4	Annual Product	2 years	500	
5	Annual Product	1 years	500	
6	Quarterly Product (Q2+Q3)	10 years	1000	≤50% of item 1
7	Quarterly Product (Q1)	10 years	1000	Additional to item 6

Capacity Profile Example



Historical data, market analysis and customer feedback all highlight the market desire for a certain degree of seasonality. In order to meet this market requirement, we have developed our offer as being a flat yearly booking with an option to request additional capacity on a Quarterly basis. This ensures that we offer products in line with market demand and that capacity purchased now and capacity remaining available following this sales process are aligned with the standard Quarterly Products defined under CAM. These products are complementary to, and will be sold together with, Annual Products. The purpose of offering Quarterly Products is to allow the Shipper to cope with the swing in their long-term transportation needs. However, this will be balanced with our responsibility to not unduly limit the amount of capacity that can be offered as Annual Products going forward. Therefore we propose to limit the subscription level to 50% of the Annual Product. Offering the

seasonal products on a long-term basis (5 years or more) enables Shippers certainty and provides long-term revenue to IUK.

3 Capacity in Adjacent Systems

IUK and Fluxys Belgium have published a joint Information Memorandum for this sales process. The products and capacity allocation are independent to each company but do mean that Fluxys Belgium capacity will be offered to the market on the same timescale as IUK post-2018 capacity. National Grid Gas (“NGG”) capacity is also available at a similar time through their existing mechanisms. Therefore, Shippers can use this opportunity to purchase capacity to and from the GB and continental European markets. Shippers may have some long-term capacity in the Fluxys or NGG systems and could use this opportunity to purchase corresponding quantities within the Interconnector.

IUK and its adjacent TSOs will then offer all Shippers the opportunity to voluntarily bundle their capacity at IBT and at IZT, to the extent that the Shippers have matching quantities and durations of capacity at either side of each Interconnection Point.

4 Future Technical Capacity

The sales process that is being launched is important for determining the next phase of the Interconnector. With the current long-term contracts expiring, IUK is offering long-term capacity post-2018 to the market with the aim of achieving future revenue visibility.

In addition, the existing available capacity was determined by previous market demand. The gas industry has evolved significantly and the market response to this sales initiative will provide a view on the current market demand and could trigger IUK to consider adjusting the capacity to suit the ongoing future market requirement.

5 Allocation process principles

Capacity will be allocated giving priority to longer duration booking requests to reflect the increased willingness to pay that this represents, regardless of the volume booked per year. Allocation will be carried out in the following order:

- **Flat annual capacity by duration (i.e. a 12 year request is allocated first, a 1 year request last)**
- **2-Quarter capacity by duration (i.e. 12 years down to 5 years)**
- **Additional 3rd Quarter capacity by duration (i.e. 12 years down to 5 years)**

If at any stage, demand exceeds supply then IUK will instigate an ascending clock auction for that product. This will not impact capacity that has already been allocated.

In that case, Shippers will be informed that demand exceeds supply and which product type, duration and quantity of capacity is affected. The ascending clock auction gives the Shippers the option to confirm or decrease their volume following an increment in price. If they choose not to, their original bid will remain in place.

Second round ascending clock auction process in case demand exceeds supply

If the ascending clock bid auction process is triggered then for that capacity type and duration:

- IUK will inform all affected Shippers that demand exceeds supply for a specific product;

- Those Shippers will be invited to resubmit bids to IUK at the reserve price + price step in 3 working days time;
- IUK will notify the Shipper of a suitable price step to be applied;
- Each Shipper will adjust their quantity requested (equal or reduced) according to the increased auction price;
- The increment will be applied as many times as necessary to get an aggregated subscribed quantity smaller or equal to the remaining quantity;
- As described in the CAM ascending clock mechanism, further iterations at a small price step will be carried out if required.

The allocation process has been designed to be objective, non-discriminatory and transparent. For the first round, allocation will be ordered by Shippers' willingness to pay, therefore bids for longer durations of capacity will be prioritised. If a second round is triggered, the ascending clock auction mechanism is used. Both of these concepts are in line with the principles in CAM.

6 Capacity Subscription

The subscription booking form for non-binding capacity is provided to Shippers following completion of the registration form that can be found on www.interconnector.com together with the Information Memorandum. Following this consultation and feedback from the non-binding phase, a subscription booking form for the binding phase will be provided to Shippers who have registered.