

GM&T IUK IAA Consultation Response

GM&T would like to thank IUK for organising this public consultation, which is an opportunity for shippers to comment on the terms and conditions in the IAA and IAC and their annexes.

Products and Allocation Process:

1) Is the product offered suitable for meeting market requirements?

GM&T welcomes the marketing of quarterly and yearly products, which provides shippers with the possibility to profile long-term bookings, as added flexibility to Capacity Sales for 2018. Perhaps CAM auctions in the future will authorise long-term sales of quarterly capacity.

2) Do you agree that the limitation of quarterly products to 50% of the flat annual capacity subscribed strikes a balance between meeting market demand for seasonality and maintaining capacity for annual products in the future?

GM&T believes there should be no limit to the size of quarterly products sold into the future: 50% appears to be an arbitrary number and we see no reason why it cannot be increased, as long as priority in the allocation process is given towards annual bookings in the event of an overlap. GM&T believes that the long-term attractiveness of IUK as the pipeline route of choice can only improve through the provision of maximum shipper flexibility and optionality.

3) Do you support the allocation process described?

As mentioned in the previous question, GM&T does not believe there should be any limits on how much quarterly capacity is sold; as this reduces the flexibility offered to shippers and could have an impact on total capacity sales for IUK.

Charging Methodology:

4) Do you agree that the Charging Methodology for this sale of capacity from October 2018 is appropriate?

GM&T finds it difficult to agree with a methodology that is supposed to be written as a legal annex to the IAC but is instead in a summarised, non-legal text, which **omits important information** on the methodology, such as the methodology itself for example.

GM&T believes that both IUK and shippers only have to gain from increased transparency, and reminds IUK that **transparency provisions** from the upcoming **EU Tariffs Network Code** will apply from 2017. GM&T supports the "special treatment" of IUK in the Network Code in so far as IUK still complies with its provisions on transparency. In this sense, if IUK does not wish to have to consult on its methodology again in 2016 as will be required by the Network Code¹, IUK should attempt to emulate the consultation period now. This entails being more transparent about its methodology inputs such as its allowed revenue, operational and fixed costs, RAB, depreciation, etc. We understand that IUK may want to implement a different methodology to those currently being considered by the Network Code and are supportive of the special treatment of interconnectors by the Code.

¹ Art. 21 of the final ENTSOG Tariffs Network Code draft

However, GM&T would also welcome further regulatory clarity on the “**merchant pipeline**” status that IUK is currently enjoying as per an exemption from the SLC granted by Ofgem. Does this special status extend to the IAA, or does it expire when the STA contracts expire?

Moreover, the Charging Methodology does not reveal what combination of **multipliers** IUK intends to apply on future shorter-term capacity. If IUK wishes to promote long-term capacity bookings, a good place to start would be to guarantee the economic advantages of booking longer-term.

IUK also does not mention whether it intends to impose **floating or fixed tariffs**, nor how it will reconcile any **over or under-recoveries** to its allowed revenue (e.g. through a complementary revenue recovery commodity charge).

IUK has also not been clear in relation to its intended investment or divestment plans and how these will be factored into its methodology and the determining of future tariffs.

5) Do you support the proposal that reserve prices for entry capacity at Bacton and exit capacity at Zeebrugge will be about 25% higher than the reserve prices for exit capacity at Bacton and entry capacity at Zeebrugge to reflect the different underlying market and cost conditions?

GM&T supports the principles behind such a decision.

6) The price for day-ahead capacity prior to 1 October 2018 under the IAA has been set such that Shippers acquiring capacity made available from CMP mechanisms pay a broadly equivalent tariff to existing STA Shippers to avoid cross-subsidy. Do you agree that this basis is also suitable for capacity products longer than a day for the period from 1 November 2015 to 30 September 2018?

OSBB is a mechanism that benefits primarily short-term shippers, who can source additional capacity without having triggered additional underlying investments, which are currently being paid for by existing STA shippers. To allow for shippers to pay less for OSBB capacity is to sponsor cross-subsidisation and there is no reason why this logic should apply any differently to longer-term products.

7) Do you agree that Forced Buy-back should only affect day-ahead and within-day capacity?

GM&T would like to highlight the different business models underlying long-term and short-term bookings. Long-term bookings are supported by long-term contracts to downstream suppliers, who expect the delivery of their supply needs. Unlike, short-term shippers who are arbitraging between markets, these downstream supply needs will need to be contractually met, regardless of what the spreads are between the UK and Belgium.

Moreover, an OSBB mechanism is there to sell more day-ahead capacity, which benefits short-term shippers every day, except for when there is a buy-back. Thus, it seems fair and logical, that forced buy-backs should affect those that benefit from such a mechanism in the first place.

Contract:

8) We seek your feedback on any elements of the IAA and IAC

With regards to specific provisions of the IAA, GM&T would like to mention the following:

Clause 5.1 - This clause is far too broad. It is enough for an event to merely “delay” or “hinder” or “prevent” performance for an FM to be triggered. The threshold is too low and this leads to commercial uncertainty. We would suggest re-drafting the FM clause so that it better reflects commercial realities. In particular, the trigger should be that an event beyond the control of either



party makes performance “impossible” and “cannot be overcome”. GM&T is happy to cooperate in the better formulation of this clause.

Clauses 5.5 and 5.6 – GM&T believes this is far too onerous a clause and would like IUK to clarify why GM&T should continue to pay for capacity when this is not being provided.