

# **Interconnector (UK) Limited**



## **Consultation Report on the Proposed Services for Post-2018 Capacity**

## Consultation on the Proposed Services for Post-2018 Capacity

Interconnector (UK) Ltd (IUK) is currently operating under 20 year-long contracts which expire on 30 September 2018. From 1 October 2018, therefore, all of IUK's technical capacity will become available, where economic and except for capacity already sold<sup>1</sup>. The context in which IUK is seeking to develop a viable post 2018 business model is, for a number of reasons, extremely challenging. Key amongst these challenges are that IUK, whilst subject to the full impact of the network codes which regulate transmission activities, has no captive demand nor – as things currently stand – an allowed revenue. IUK therefore finds itself in the untenable position of having to comply with an EU-wide legal framework that largely assumes that the TSOs to whom it applies have both a captive demand and/or an allowed revenue. Having regard to the context in which IUK is operating, it is IUK's understanding that there is recognition at European Commission and NRA level of the need to grant IUK some freedom and flexibility when applying the terms of the European legal framework. It is for that reason that various references to the specific nature of interconnectors are included in that framework and it is in that context that IUK has developed the proposed new services.

IUK will be offering all of its available capacity via the standard Capacity Allocation Mechanisms (CAM) capacity auctions. IUK is next offering annual capacity in the March 2017<sup>2</sup> CAM Annual Auction and is then unable to sell capacity for a further 16 months, until July 2018. Securing some long term bookings before October 2018 is vital for IUK's future survival to ensure the asset remains fully operational and is not required to reduce capacity or close down.

On 13 October 2016, IUK launched a public consultation<sup>3</sup> on two proposed services to enhance post-2018 annual Interconnector capacity purchased in the CAM 2017 Annual Auction. IUK has actively engaged with the market throughout the consultation process, carrying out a stakeholder workshop along with bilateral meetings to explain the proposals. Specifically, the consultation covered:

- the two proposed services and the rationale for them;
- contractual arrangements to enable the introduction of the services;
- Re-profiling Rules and SCS Rules for the 2017 CAM Annual Auction; and
- an extract of IUK's Charging Methodology.

The consultation document asked stakeholders for general feedback on the proposals and also for responses to a number of specific questions. The consultation closed on 10 November 2016. The above-mentioned documents were published on IUK's website and later accompanied by the non-confidential consultation responses.

### Proposals included in the Consultation

#### 1) Re-profiling Service

- i. IUK's proposal to introduce a **Re-profiling Service** would enable Shippers to release a portion of annual Interconnector capacity within 10 days from purchase in the CAM 2017 Annual

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<sup>1</sup> 113GWh/day of capacity from Belgium to the UK was sold from October 2018 for 10 years in the first 2015 sale of post 2018 capacity held in May 2015.

<sup>2</sup>[http://www.entsog.eu/public/uploads/files/publications/CAM%20Network%20Code/2016/CAP0633\\_160114\\_CAM%20NC%20auction%20calendar%202016-2017.pdf](http://www.entsog.eu/public/uploads/files/publications/CAM%20Network%20Code/2016/CAP0633_160114_CAM%20NC%20auction%20calendar%202016-2017.pdf)

<sup>3</sup> Consultation Documents available at: <http://www.interconnector.com/about-us/our-consultations/latest-consultation/>

Auction. Released capacity will be made available in the next auction, enabling IUK to carry out proactive congestion management.

- ii. Indicative conditions to prevent gaming were outlined in the consultation document, including that the Re-profiling Service could be applied such that:
  - no month can exceed the peak monthly capacity purchased;
  - the Shipper must retain at least 3 months at this peak monthly capacity; and
  - the Shipper has the right to return up to 50% of the total capacity booked.

## 2) Simplification Conversion Service

- i. IUK's proposed **Simplification Conversion Service** would enable Shippers to achieve the same profile at both ends of the pipe and provide them with the opportunity to make the most suitable booking in the adjacent Transmission System Operator's (**TSO**) system.
- ii. IUK currently operates under a two Interconnection Point (**2IP**) model. The SCS allows Shippers to only buy capacity at one IP (**1IP**) in the CAM auction, after which they would have 10 days to opt to pay IUK a fee to convert their capacity into a simpler 1IP-equivalent capacity, enabling them to nominate at one IP and have this nomination treated as a nomination for the other IP too.

## Summary of Consultation Responses and IUK Response

During the consultation which closed on 10 November 2016, IUK received formal responses from nine stakeholders and additional comments from several stakeholders with ideas for innovative services for post-2018. The non-confidential responses are published on the consultation page of IUK's website along with the consultation documents.

### a) Proposed Services

The majority of stakeholders who responded to the consultation broadly support IUK's two proposed new services. They noted that: "they should help provide shippers with additional flexibility in terms of matching capacity bookings with the seasonal profile of expected gas flows, as well as a more efficient use of existing transmission capacity"; "Offering new products and services which remain within the parameters of what the EU Network Codes on Capacity Allocation and Tariff Harmonisation allow is entirely appropriate and IUK has a good track record of responding to meet the needs of its customers and the market as a whole."

Some responses included the suggestion of a Re-profiling window to be introduced on a yearly basis for capacity purchased across multiple years and that the ability to return more than 50% of the total capacity booking may be more attractive.

IUK's response:

The majority of the responses to the consultation were positive, with stakeholders acknowledging that the services would provide increased flexibility which is much needed for IUK and the market.

### b) Charging Methodology

Stakeholders comments on the charging methodology included: agreement that it is transparent, objective and non-discriminatory; "the re-profiling service should be subject to a fee as with the simplification conversion service only payable if the service is used"; "the price of the new services should allow for the recovery of appropriate CAPEX and OPEX costs".

IUK's response:

In response to the feedback received, IUK believes that offering the Re-profiling Service for a separate fee would be a more effective means of addressing market demand for the service and any parties who wish to purchase flat annual capacity without re-profiling can do so without incurring the separate fee. The fee will be reflected in the Re-profiling Rules that relate to the specific offering. The SCS charge will be reflective of the fact that IUK is performing additional services on behalf of the shipper, and therefore IUK believes it is justifiable to be higher than the equivalent cost of capacity. Whilst IUK acknowledges that shippers would like to see capacity costs reduced, it has to be noted that these new services allow shippers to secure a seasonal profile whilst benefitting from incentivised pricing. In addition to the formal consultation feedback, we have since continued to engage with the market, including parties who did not respond.

### **c) Additional Comments**

IUK also received some additional comments, such as: "We would be keen to see this service extended to all relevant capacity products offered by IUK"; "we welcome the proactive approach taken by IUK in developing new services and consultation with the market"; as well as suggestions for future services. One response noted that "IUK is in a somewhat different position to other TSOs (whose funding is more typically linked to a regulated asset base); in order that the interconnector can continue to play its role in linking GB and continental markets, it would seem sensible and appropriate that NRAs take this fact into account when considering whether or not approve new services."

IUK's response:

IUK welcomes the feedback that greater flexibility should be afforded to IUK. The ability to continue offering flexibility to Shippers through Re-profiling after the 2017 auction is essential for the Interconnector to remain commercially viable.

### **IAC Drafting Changes**

Drafting changes to the IAC resulting from the consultation responses are provided in the "post-consultation version of IAC (marked up)" published on IUK's website.