

2.2 Reserve price for Capacity for use from 1 October 2018 onwards

2.2.1 General Principle

The reserve prices for capacity sales for Entry and Exit Capacity for use from 1 October 2018 will be set by IUK to ensure objective and non-discriminatory treatment across shippers taking part in the capacity sales.

The key factors determining the reserve prices are:

- Competitive forces and the prices of competing and complementary services;
- Operating costs for operating and maintaining the company and its assets;
- Capital expenditures required to maintain the service;
- Projected customer demand for IUK capacity and the forecast volume of both long term and short term sales under a range of market scenarios.

IUK will set reserve tariffs which are competitive and responsive to market forces. The tariffs will not be mechanically determined by a formula. The reserve prices will be attractive to shippers, and will reflect the value of the services.

For ascending clock auctions held on PRISMA, the determination of the large price step shall seek to minimise as far as reasonably possible, the length of the auction process. The determination of the small price step shall seek to minimise, as far as reasonably possible, the level of unsold capacity where the auction closes at a price higher than the reserve price.

2.2.2 Principles for price structure of 2015 Subscription Process (valid for any Subscription Process held before 1 November 2015)

The capacity offered in 2015 will be long term capacity booked well in advance of delivery. It is important for IUK to know in 2015 that some capacity has been booked post 2018, to allow for more efficient and effective capacity planning of IUK's future business model. To reflect this fact, various incentives were included in the 2015 subscription process to encourage long term booking.

The main principles for the price structure of the 2015 subscription process are outlined below:

- The price paid for Entry Capacity and Exit Capacity will be the reserve price plus any premium bid at the time of the allocation process. This means the capacity price is fixed at the time of allocation (but subject to future indexation) providing price certainty to IAA Shippers.
- A booking incentive on the reserve price will be offered for bookings for Annual Capacity Products that are longer in duration (i.e. booking incentive 10% for bookings of 5-7 Gas Years, 15% for bookings of 8-9 Gas Years and 20% for bookings of 10 Gas Years or longer).
- IUK will also offer the option of booking Quarterly Capacity Products for shippers who book Annual Capacity Products for a Capacity Period of 5 successive Gas Years or more. Quarterly Capacity Products for two quarters or three quarters of entry and exit will be available in addition to the Annual Capacity Products. The 2 Quarter Capacity Product will be made available at a premium of 50% to the price of Annual Capacity Products corresponding to the same duration (i.e. the reserve price after any booking incentives are applied) and the 3 Quarter Capacity Product will be made available at a premium of 20%.
- A Capacity Transaction for a Firm Annual Capacity Product for 5 or more successive Gas Years benefits from a "lowest price guarantee" in that the Capacity Charge is the lower of: (i) the

sum of the reserve price and the premium; and (ii) the lowest price for which such Firm Annual Capacity Product is allocated in a PRISMA auction for that Gas Year or if there is no allocation for that Gas Year, the lowest IUK reserve price for that Firm Annual Capacity Product for that Gas Year. In addition, the IAA Shipper is protected from increases to such charge and from additional charges being imposed as provided in the form of Confirmation in paragraph 5 of Annex B-3 to Section B of the IAC.

2.2.3 Indexation

When calculating the entry or exit capacity charges to apply in a future year, the reserve price element for an Annual Capacity Product will be subject to annual indexation as provided for in Section F paragraph 5.3 of the IAC. Any auction premium will remain fixed.

2.3 Additional Services

IUK may from time to time develop and offer to market additional services with the aim of better meeting the market and shipper requirements. These services will be priced to be competitive and market responsive whilst ensuring objective and non-discriminatory treatment across Shippers subscribing to the service.