

## Interconnector (UK) Limited

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Vienna, 7<sup>th</sup> September 2017

### Consultation on IUK's implicit capacity allocation mechanism

Dear Madams/Sirs,

OMV Gas Marketing & Trading ("OMV GAS") welcomes the opportunity to provide IUK with our view on the proposed allocation mechanism to allocate implicit capacity/commodity products.

We appreciate that IUK is one of the TSOs assessing capacity allocation mechanisms that provide an alternative to the standard product set defined by NC CAM. However, in the light of several uncertainties regarding the products and allocation mechanism still open to be defined, we object the fact that this should be the last opportunity to express stakeholders' views.

#### 1) **Product Pricing:**

Market participants cannot clearly support or object the introduction of an implicit product allocation mechanism given that the pricing of the product will be communicated only at a later stage (as described on page 6).

2) The **conceptional** and **contractual framework** behind implicit capacity/commodity products needs to be specified and should be consulted separately before asking potential buyers for support. In particular we are referring to the following aspects:

- a. Lacking rules regarding cross-liability and "firmness" of the implicit product:
  - i. Do customers have to pay the IUK capacity fee if the gas seller is not able to provide the agreed commodity at the agreed delivery point (i.e. in case of gas shortages or unscheduled upstream maintenance activities)?
  - ii. Do customers have to bring their hub positions back to a balanced state on their own expense if IUK cannot transport the already purchased gas (i.e. due to maintenance or force majeure cases)?
- b. Marketing channels:

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- i. At the time the consultation for the product is running, shippers need clarity whether the implicit product is marketed via a broker or an exchange. It does make a significant difference.

3) **Commercial Considerations:**

IUK is proposing to market implicit capacity outside the NC CAM calendar which should create more flexibility. However, any price advantage coming from the implicit capacity product (compared to the standard product and a separate commodity deal) will only come fully into effect for gas year products. For any shorter term or seasonal products a capacity conversion service results in short term factors and multipliers with the respective adjacent TSO. In addition, any price/margin certainty coming from the implicit product will be undermined by the fact that capacity conversion is subject to Prisma auctions and thus to potential auction premia.

OMV GAS asks IUK to take the points above into consideration before continuing the consultation process as outlined in the timeline.

Should you have any questions, please do not hesitate to contact Mr. Alexander Frank (alexander.frank@omv.com; +43 (1) 40440 27729)

With kind regards,

OMV Gas Marketing & Trading GmbH



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