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Swindon, 12/09/2017

Consultations on IUK's a) Implicit Allocation Mechanism b) Access Terms c) Charging Methodology for capacity sales from January 2018 and d) request for a derogation from the application of one or more Articles of Commission Regulation 2017/460

Dear Danielle,

RWE Supply & Trading (RWEST) welcomes the opportunity to respond to the above consultations. Our response is not confidential and should you wish to discuss it further please do not hesitate to contact us.

Consultation on IUK's Implicit Allocation Mechanism

1) Do you support the proposal to introduce Implicit Allocation as an additional means of booking IUK capacity?

RWEST supports the proposal to introduce implicit allocation on the basis that it acts as a subsidiary mechanism to compliment the primary EU capacity allocation mechanism laid out in Regulation 2071/459 (CAM NC).

Such a mechanism, once established, should be considered by other TSOs at EU interconnection points (IP) as the inefficiency traders' face in not being able to purchase IP capacity outside of the CAM NC timetable is not confined to UK and Belgium markets. Whilst we recognise the benefits of harmonised rules, platforms and timescales being applied to how IP capacity is allocated explicitly, there are many instances where traders see economic benefits in buying short term IP capacity but are unable to do so, because they do not coincide with the relevant auction dates. Such inefficiency reduces potential liquidity and prevents efficient arbitrage narrowing price spreads between market areas. So a complimentary mechanism giving traders more flexibility to purchase IP capacity is increasingly necessary.

2) Do you support the view that Implicit Allocation will enable Shippers to purchase IUK capacity when there is an economic signal to do so, something which is restricted by only being able to purchase IUK capacity through auctions held on PRISMA?

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Yes

3) Do you think the proposed restrictions are sufficient to prevent gaming?

RWEST is not unduly concerned about restrictions to prevent gaming as market participants typically operate under strict compliance policies that forbid market abuse. However, restrictions should be applied which recognise implicit allocation as a subsidiary mechanism and the relevant market characteristics.

Implicit allocation should not undermine the efficacy of explicit allocation under the CAM NC. So in all cases capacity should not be made available implicitly during the period between IUK publishing the amount of capacity being allocated explicitly on PRISMA and the relevant auction concluding.

We note IUK's intention to set aside 20% of the technical capacity and allocate this explicitly in accordance with Article 8.7 of the CAM NC. However, in the event this does not sell, consideration should be given to cascading it down to the next short term auction, rather than immediately offering it implicitly thereafter.

As regards annual capacity allocated implicitly, whilst we support IUK's proposal to be able to offer this for any four consecutive quarters, extending the period it can be allocated for out to 15 years seems excessive. Bearing in mind the current extent of the forward curve, 5 years in advance seems more appropriate to avoid this unduly compromising annual capacity offered explicitly on PRISMA. Such a period is also consistent with the period in Article 8.7(a) of the CAM NC.

Limiting the maximum amount of monthly capacity offered explicitly to 40% in July also seems arbitrary. Instead implicit capacity offer periods could be shortened for the months of April, May and June (to 5/4/3 months in advance respectively) to avoid overlap.

We agree with IUK that day-ahead and within day capacity should not be allocated implicitly, at least for now, but think that further restrictions may be necessary on the extent to which daily products should be allocated implicitly. For example, rules relating to the number of consecutive days that can be purchased within each month (e.g. balance of month, weekly, weekdays next week and weekend) and the lead time from which the purchase of daily capacity can commence may be appropriate in order to maintain the integrity of the CAM NC day-ahead and within day capacity auctions.

Finally, whilst details of how capacity is to be offered implicitly (via an exchange or a broker) have yet to be finalised, some restrictions may also be necessary here. With the increasingly diverse range of products and markets being covered by some exchanges/brokers, IUK capacity should not be able to implicitly allocate capacity regardless. Instead it could be restricted to specific markets and products for which access to IUK capacity is most relevant (e.g. trades at NWE hubs).

4) Do you consider that IUK should continue to offer a percentage of capacity through Implicit Allocation whilst the PRISMA process is taking place to ensure that there is not a time when capacity is unavailable to the market and to remove complexity for the market?

No.

Explicit capacity allocation should remain the primary allocation mechanism. Implicit allocation should be suspended whilst all CAM NC capacity auctions are ongoing.

5) Do you think that Implicit Allocation of IUK capacity will be beneficial to the market?

Offering traders the opportunity to acquire capacity more flexibly via a proportionate complimentary implicit allocation mechanism, will potentially benefit the market. The extent to which it does so however will be dependent on IUK pricing implicit capacity competitively, the ability to efficiently acquire entry/exit capacity at either end of the pipeline to match unbundled implicit IUK capacity and the transmission charging methodologies applied by interconnected TSOs. Absence the ability to implicitly allocate IUK capacity on a bundled basis, a conversion mechanism to convert the IUK element of any explicitly acquired bundled capacity will also be necessary in order for implicit allocation to function effectively.

6) Do you have any comments on the proposed legal drafting amendments to the Access Rules to introduce this mechanism?

We have not been able to review the amendments to the access rules introducing this mechanism in the time available.

As regards Articles 8-37 of the CAM NC we understand (based on the clarification note issued on 1st September 2017) that these articles will only be temporarily dis-applied whilst capacity is being offered implicitly. As such they will not be permanently dis-applied and explicit capacity allocation will always be required to continue in accordance with the CAM NC, to the extent capacity is available. This avoids the possibility of explicit capacity allocation being phased out in future and (in conjunction with the restrictions proposed in our answer to question 2) being undermined.

Consultation on IUK's Access Terms

1) Do you agree with the proposed drafting included to address the concerns raised by CREG in their Decision Letter (dated 8 October 2015)?

We have not been able to review the drafting included to address the concerns of CREG in the time available. We note however, that the minimum debt rating

necessary to avoid providing credit support and the amount of credit support itself have risen, for reasons which are not clear.

2) Do you agree with drafting included to facilitate the introduction of a Capacity Conversion Service?

We have not been able to review the drafting included to facilitate the introduction of a Capacity Conversion Service in the time available. Nevertheless we welcome the fact that IUK has included day-ahead capacity within the scope of the conversion as this will ensure the greatest degree of market efficiency.

3) Do you agree with the changes to the treatment of Fuel Gas, HV Electricity and Shrinkage?

We have not been able to review the drafting changes to the treatment of Fuel Gas, HV Electricity and Shrinkage in the time available. Nevertheless we support IUK's intention to charge shippers for these items based on an ex-ante commodity charge.

4) Do you have any comments on the proposed drafting amendments to the IAC to accommodate the introduction of an Implicit Allocation Mechanism?

We have not been able to review the amendments to the access rules introducing this mechanism in the time available.

A separate explanatory legal note outlining all the changes to the IAA, IAC and SUA, along with the reasons for such changes, would aid understanding and assurance and help our lawyers to undertake such a review.

Consultation on IUK's Charging Methodology (CM) for capacity sales from January 2018

1) Do you agree that the CM, for the sale of capacity from January 2018, is appropriate?

The CM provides insufficient detail about key factors such as price notice periods, price differentiation, multipliers, risk premiums, booking incentives, buy-back premiums and the extent of any negative Net OS Revenue Account for us to take a view on its appropriateness at this stage. Whilst some, or all, of these factors may be incorporated in IUK's Charging Statement it is not clear whether this will be consulted upon, or whether it will include the necessary details of how they have been determined.

Whilst we are generally supportive of IUK's proposals, the absence of any detail in the CM about how capacity will be priced post October 2018, how frequently such prices will change, when implicitly allocated capacity prices will be published and how these inter-relate with explicitly allocated capacity prices means it is not yet possible to see the full picture.

We welcome IUK's commitment to discuss bilaterally with interested shippers such aspects of the CM. But we still think these should be consulted on more widely on these once they are more fully formed, regardless of whether they form part of the CM or IUK's Charging Statement.

2) Do you agree that the proposals are appropriate for an interconnector with full market exposure?

We recognise that IUK's position vis-à-vis other TSOs is atypical and are keen to support initiatives whereby it can offer its services more flexibly to reflect prevailing market conditions. Nevertheless, traders should still be entitled to know the basis on which capacity will be priced, when such prices will be published and the frequency and extent to which they may change during the gas year, for both implicitly and explicitly allocated capacity, in order to have confidence in their booking strategies.

3) Do you have any other feedback on the proposed changes?

No

Consultation on Interconnector (UK) Limited's request under Article 37 of Commission Regulation (EU) 2017/460 establishing a network code on harmonised transmission tariff structures for gas for a derogation from the application of one or more Articles of this Commission Regulation

1) Do you agree that the derogations from the TAR code proposed are appropriate for IUK as a gas interconnector with full market exposure?

Derogations from the TAR code are undoubtedly appropriate. But based on our current understanding on IUK's proposals we are not convinced all of the articles IUK is seeking derogations from are justifiable.

Derogations from Article 3.3(b)(iii) (complementary revenue recovery charge) and Article 5 (cost allocation assessment) seem clear cut and we fully support IUK's request to derogate itself from Article 6.4 (ex-post interruptible discounts), relying solely on ex-ante interruptible discounts instead. However, the other articles for which derogations are being sought relate to the determination, stability and predictability of prices, along with the notice periods and consultation associated with these, all of which shippers fought hard to have included in the TAR code. So whilst they may not be entirely appropriate for a merchant interconnector TSO with no captive customers, we do not feel entirely comfortable derogating them based on the incomplete picture we currently have of IUK's proposals.

That said, we draw some comfort that the safeguards and checks that exist under legislation and in IUK's licence may be sufficient to ensure IUK will still be required to appropriately consult on how it intends to set and change its prices (both implicitly and explicitly) and to publish them with appropriate degrees of notice, despite the derogations. IUK's clarification note of 1st September 2017

also envisages shipper input into how tariffs are set and recognises the need for sufficient ex-ante certainty surrounding them.

Any derogations granted should however, be regularly reviewed and consulted upon and made conditional on market participants being satisfied with the levels of understanding, transparency and predictability of IUK tariffs.

2) Do you have any other feedback on the proposed application?

IUK has obvious commercial incentives to make its capacity attractive to market participants and we support measures which lessen regulatory burdens that unduly interfere with these.

It is not entirely clear to us whether the derogations being proposed are considered necessary to facilitate the introduction of implicit capacity allocation or to enable IUK to price explicitly allocated capacity more flexibly, or both. If the intention is to allow IUK to price explicitly allocated capacity more flexibly it is worth bearing in mind that Article 13 of the TAR code, on multipliers, strikes a careful balance between the legitimate interests of TSOs for revenue certainty and predictability and the need to optimise flexible gas flows between market areas. So whilst it may not be appropriate for NRAs to set the multipliers that IUK may apply, we would be cautious about derogating the caps and floors included in this article based on the little we currently know about IUK's specific future pricing intentions.

Yours sincerely,



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