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21.11.2017

Subject: Shell response to consultation IUK's Charging Methodology for capacity sales from Jan 2018

Dear Madame/Sir,

Shell appreciates IUK providing an additional opportunity to comment on the revision of the IUK charging methodology applicable from January 2018. As a significant user of the Interconnector, Shell recognises value in this important asset through its provision of access to security of supply, flexibility and improved liquidity for the markets it serves and it acknowledges that IUK should be supported by market players to implement a commercially viable proposition for both users and operator.

Shell is of the strong opinion that building the appropriate regulatory framework beyond the expiry of the existing transportation contracts is key to maintain its commercial attractiveness while ensuring an appropriate level of revenues for the asset owner.

In the context of this consultation, while Shell remains available for further bilateral conversations, it is keen to focus its contribution to the following points:

- **Choice of implicit auctions as allocation methodology:** Shell shares the view that this is the correct way forward to grant IUK the necessary flexibility to devise the most appropriate charging methodology. The CAM network code, if applied in its entirety, would probably posed too stringent constraints;
- **Implicit auction product definition:** while Shell appreciates the willingness to provide a flexible service with more choice and it invites IUK to limit the range of capacity products to those matching standard commodity products available at relevant exchanges;

- **Use of booked capacity:** Shell underlines the importance of treating the capacity acquired via implicit auctions following all relevant existing rules for congestion management. This includes the possibility to resell capacity on the secondary market independently from the volumes jointly traded within the relevant implicit auction;
- **Capacity prices binding range:** while Shell understands the logic behind the proposal, i.e. the need to strike a balance between sufficient revenue level and commercial flexibility, the range are such that:
 - Despite the proposed publication calendar, they do not provide the level of clarity and predictability necessary to build an effective trading and hedging strategy (long-term Vs short-term) ahead of the booking season;
 - They fail to provide the necessary incentives to book long-term capacity and leave shippers exposed to fairly variable pricing mechanism that may in theory even retrospectively alter the competitiveness of a given capacity product;
- **Risk premium:** Shell stresses that setting of a premium should reflect benchmarks available in the infrastructure market and the appropriate level of remuneration considering also the level of asset depreciation already occurred. To this end Shell highlights the important of a transparent and well-argued setting mechanism;
- **Differential pricing:** Shell agrees with IUK assessment that the nature of the asset is such that the ability to set different prices at different entry/exit points, for different flow directions, and for different products is key and should be defended;
- **Commodity charge:** in this regard, it is recommended to follow the content of the TAR network code and the limit the use of commodity charge to the recovery of the variable costs, possibly defined upfront and on a year on year basis. Inevitably this will not ensure an accurate way to recovered such cost but it will ensure simplicity and predictability. IUK's approach seems therefore appropriate;
- **Interface CAM auction and IA and third-party arrangements:** Shell recommends simplicity and efficiency as guiding principles in setting the relevant allocation and auction processes. Specifically, on keeping clarity on the amount of capacity sold respectively in CAM and IA Shell believes some additional explanation may be necessary with respect to how the commitment to sell 50% of the available capacity via CAM auction is operationally ensured.

While Shell remains available for any clarification on the above message you may need, it looks forward to continuing our dialogue on the future IUK regulatory arrangements as well as on commercial opportunities.

Yours sincerely
Shell Energy Europe Limited



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