

# Consultation on Tariff Arrangements for Short Term Daily Capacity and Virtual Reverse Flow products in Northern Ireland

18 May 2012

## Contents

1. Purpose of this paper .....	3
2. Background.....	3
3. Treatment of revenue from new products.....	4
Arrangements for existing postalised capacity and commodity products.....	4
4. Overview of licence changes necessary to implement new tariffs .....	5
5. Short term capacity tariffs .....	6
6. Virtual reverse flow tariffs.....	7
7. Calculation and publication of charges .....	8
8. Consultation questions.....	8
9. Next steps.....	8
Annex 1: Updated Timetable for Industry Consultation.....	9
Annex 2 Example Charging Methodology Statement .....	10

## **1. Purpose of this paper**

- 1.1. This paper sets out for consultation the tariff arrangements for the short term daily capacity and virtual reverse flow (VRF) products in Northern Ireland.
- 1.2. These products have been developed in order to satisfy infringement proceedings against the UK under Regulation (EC) 715/2009 which replaced Regulation (EC) 1775/2005.
- 1.3. Respondents should note a number of other papers published today which are relevant to the issues in this paper and which should be read in conjunction:
  - The introduction of the new products requires changes to be made to the conveyance licences of the TSOs. The Utility Regulator has today published Gas Notices and the text of the licence modifications for consultation. The closing date to respond to the Gas notices is 18 June and responses should be made directly to the Utility Regulator as set out in the Gas Notices.
  - The introduction of the products requires changes to certain sections of the transportation codes of the TSOs concerning, charges, payments and credit procedures including the terms of reference for the credit committee. PTL has separately published for consultation draft modifications to these sections of their codes arising from the need to introduce the new products. The closing date to respond to the code modification consultations is 1 June and responses should be made directly to PTL as set out in their code modification consultation. We expect BGE(NI) to consult on equivalent modifications to their code shortly.
- 1.4. An updated timetable for industry consultation is set out at annex 1.

## **2. Background**

- 2.1. The European Commission referred the UK and Ireland to the European Court of Justice on 26 January 2012 for a failure to fulfil certain obligations under Regulation (EC) 715/2009, which replaced Regulation (EC) 1775/2005 on 3 March 2011. Earlier in June 2010 the Commission issued a reasoned opinion to the UK for non-implementation of certain aspects of Regulation (EC) 1775/2005. These requirements were to be fulfilled as part of the CAG project by 1 October 2012.
- 2.2. The two Departments have jointly requested that the Utility Regulator and the Commission for Energy Regulation (CER) in Ireland urgently focus their resources, and the resources of the system operators, on ensuring immediate compliance with the Gas Regulation in the EU Second Package in their respective jurisdictions.
- 2.3. The short term daily capacity and VRF products have been developed in order to satisfy infringement proceedings against the UK under Regulation (EC) 715/2009 which replaced Regulation (EC) 1775/2005. The infringement alleged that the Transmission System Operators (TSOs) in NI do not make maximum capacity available on the Scotland to Northern Ireland (SNIP) pipeline or on the South-North pipelines (SNP) because they do not offer interruptible reverse flow.
- 2.4. The business rules for the short term daily capacity product were confirmed by the Utility Regulator on 6 April 2012. A consultation on the code changes required to

introduce short term capacity products was published on 4 May by the TSOs and responses should be made to the TSOs directly by 21 May.

- 2.5. The business rules for the virtual reverse flow product and the south north entry point were confirmed by the Utility Regulator on the 10 May 2012. The TSOs are drafting code modifications to implement these business rules and the TSOs will publish these for consultation shortly.

### **3. Treatment of revenue from new products**

#### ***Arrangements for existing postalised capacity and commodity products***

- 3.1. Gas suppliers currently pay postalised capacity and commodity charges and these are paid on exiting the postalised system. Revenues from these products are paid into a bank account called the PoT account for distribution to the TSOs under the instructions of the Postalised System Administrator (PSA). These arrangements ensure that the TSOs ultimately recover their required revenues and are given effect to in the licences on the TSOs and in certain legal agreements between them. In advance of each gas year the PSA calculates the forecast postalised tariff (capacity and commodity) for that gas year and at the end of the gas year calculates the year end charges and any reconciliation payments to be made by shippers.
- 3.2. The introduction of short term capacity and the VRF product will not change the way in which the forecast postalised tariff (capacity and commodity) and year end tariffs are calculated and reconciled or the fact that these charges are set so as to recover the TSO required revenues.
- 3.3. For the avoidance of doubt anyone using the new south north entry point and wishing to utilise firm long term capacity will pay the postalised exit tariff.

#### ***How to treat revenue from new products***

- 3.4. We wish to ensure that anyone utilising the new short term and VRF products also pays a postalised charge on exit, i.e. that the capacity charge for short term capacity will be the same regardless of where in the NI network the gas exits.
- 3.5. However, a key question is whether payments for short term and VRF products should be fully postalised, i.e. paid into the PoT and therefore subject to all the postalisation requirements.
- 3.6. We are minded not to require revenues from VRF and short term capacity products to be paid into the PoT as to do so would trigger substantial changes to the TSO licences which would be difficult to formulate and agree in the time involved. We are working to meet the infringement as quickly as possible.
- 3.7. It should be noted that there is precedent for this in the PTL licence where revenues associated with transportation to Stranraer are dealt with outside the PoT.

- 3.8. We propose that any revenues forecast to be received by the TSOs from short term and VRF services should be paid directly to the TSOs. At the end of the gas year if revenue is received for the new products, then the cash amount received will be deducted from their actual required revenues before reconciliation take place.
- 3.9. We have considered whether the TSOs forecast required revenues should be reduced by the amount of any revenues forecast to be received from short term and VRF products before the calculation of the forecast postalised charges. However, it is uncertain how the new services will be used and their use may be difficult to forecast, particularly in the short term. Consequently, we propose that the forecast revenues should be zero.
- 3.10. Notwithstanding this shippers will required to give the TSOs forecasts for their use of VRF and short term capacity and the TSOs will use these to determine the amount of credit cover required.
- 3.11. The postalised conditions of the TSO licences also contain provisions in the event of non-payment of postalised charges and which allow bad debt to be recovered, ultimately from all gas suppliers. We propose that VRF and short term will not be subject to these provisions. As stated in the introduction PTL have considered the implications that the new products may have for the financial security and credit cover provisions of their network code and as above have published code modifications for consultation. We expect BGE(NI) to consult on equivalent modifications to their code shortly.
- 3.12. The fact that revenues from new products are not paid into the PoT is not envisaged as a permanent situation. We propose to incorporate into the licence a trigger point ('a threshold amount') at which we would aim to fully postalise revenues from short term capacity and VRF. We propose that the threshold would be exceeded if the aggregate of the MDQs represented by Daily Capacity allocated at the Exit Points on the Designated Network in respect of any consecutive period of 12 months exceeds 5 per cent of the aggregate of the MDQs represented by firm capacity allocated at such Exit Points in the same period. The Authority also reserves the right to postalise such revenues even if the threshold has not been reached.

#### **4. Overview of licence changes necessary to implement new tariffs**

- 4.1. Changes to the licence are necessary to allow the TSOs to charge for VRF and short term capacity. As a consequence of the fact that the revenues from these products will not be paid into the PoT, changes will also be necessary to Part 2A of the TSO licences to differentiate the treatment of VRF and short term capacity within the postalisation conditions.
- 4.2. Briefly the licence modifications proposed are to:
- Introduce any new definitions necessary into the licence

- Allow the TSOs to charge for VRF and short term capacity
  - Introduce zero forecasting for short term and VRF revenues and allow the authority to subsequently give notice that the forecast should be other than zero.
  - Require the TSOs to submit a charging methodology statement to the Utility Regulator for approval each year and to published any statement so approved
  - Define the 'Threshold Amount' and the steps to be taken when this is reached.
  - Any consequential changes required to other conditions of Part 2A.
- 4.3. The same changes are proposed to all the TSO licences as Part 2A of the licence is identical for BGE(UK), PTL, and BGTL.
- 4.4. Changes will also be necessary to the revenue formulae of the TSO licences in order to specify how the actual required revenues will be calculated as a result of the introduction of these products. Specific changes are proposed to the revenue formulae of each TSO but these are intended to have equivalent effect.
- 4.5. See the Gas notices and accompanying draft licence changes published by the Utility Regulator alongside this document for the detail of the licence changes proposed.

## **5. Short term capacity tariffs**

- 5.1. We propose that the short term capacity tariff will be calculated using the multipliers set out below. These were the multipliers originally consulted on for short term capacity products as part of the CAG project.<sup>1</sup>
- 5.2. We propose that the multipliers would be applied to that year's forecast postalised capacity charge.
- 5.3. The arrangements for short term capacity will be streamlined such that Shippers utilising short term capacity will pay once for that capacity - to the TSO at the final Exit Point at which the Shipper offtakes gas.
- 5.4. Also, for the avoidance of doubt where shippers flow gas utilising the short term capacity product they will be subject to the normal forecast postalised commodity charge, the rules for which will not be changed by the introduction of the short term capacity product.

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<sup>1</sup> See CAG Consultation Paper on the Harmonisation of Network Tariff Capacity Commodity Ratios, Interruptible and Short Term Products and the introduction of an Entry Exit Hub Concept, 20th July 2011, CAG/11/018.

5.5. The short term capacity tariff will be invoiced under the rules of the relevant transportation code. The business rules for short term capacity were confirmed on 6 April. The TSOs are currently consulting on the specific code modifications necessary to implement the product.

**Table 1: Short Term Capacity Multipliers**

<b>Short Term Multipliers</b>	<b>M</b>
October	0.66%
November	0.66%
December	1.18%
January	2.06%
February	2.35%
March	1.76%
April	0.66%
May	0.40%
June	0.40%
July	0.40%
August	0.40%

## **6. Virtual reverse flow tariffs**

- 6.1. In order to simplify charging for VRF we propose that the VRF product should initially have an annual charge of £5000 per exit point registration and/or per each extension of an existing exit point registration for VRF.
- 6.2. We propose that this will be payable in advance of using the product – usually in advance of the gas year - and the VRF fee should be the same no matter when in the gas year the shipper begins to use the product. This will simplify administration.
- 6.3. In order to simplify the introduction of VRF, we propose that there will be no capacity or commodity charges for the VRF product. There is precedent for this in the Republic of Ireland where virtual reverse flow capacity and commodity have a zero charge.
- 6.4. Shippers should note that PS code charges may apply for any balancing or scheduling charges incurred as a result of VRF nominations.

6.5. The VRF fee will be invoiced under the rules of the relevant transportation code. The business rules for VRF were confirmed on 10 May. The TSOs will consult later this month on the specific code modifications necessary to implement VRF.

6.6. As the product develops the charging methodology for the VRF service will be kept under review.

## **7. Calculation and publication of charges**

7.1. Because the charges will not be paid into the PoT the Postalised System administrator (PSA) will not calculate the short term or VRF charges. Accordingly, the PSA will not receive information about revenues from short term or VRF as these amounts will be forecast at zero and so will have no impact on the forecast required revenues of the TSOs.

7.2. Instead we propose that the VRF and short term capacity charges are set out in a charging methodology statement. This statement will be approved by the Utility Regulator and should be consistent with the Regulator's decision on tariffs.

7.3. We envisage that the TSOs will submit a joint statement for approval and that this will be published annually by the TSOs.

7.4. An example of what a charging methodology statement could look like is attached at annex 1 for information.

## **8. Consultation questions**

8.1. We would welcome comments on any issue addressed in this consultation.

## **9. Next steps**

9.1. We welcome responses on the issues set out in this paper by 18 June. Responses should be sent to:

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14 Queen St.

Belfast

BT1 6ED

[roisin.mclaughlin@uregni.gov.uk](mailto:roisin.mclaughlin@uregni.gov.uk)

## Annex 1: Updated Timetable for Industry Consultation

An updated timetable for industry consultation is set out below.

<b>Timetable for Consultation</b>		
UR industry consultation on work to meet the infringement	UR	Complete
Consultation on the business rules for: <ul style="list-style-type: none"> <li>• short term products</li> <li>• VRF and SNP entry point</li> </ul>	UR	Complete  Complete
Tariff consultation	UR	Open (this paper)
Licence modifications (Gas notices)	UR	Open - Gas notices published alongside this paper
Consultation on code drafting <ul style="list-style-type: none"> <li>- Short term</li> <li>- Credit cover/financial security</li> <li>- VRF and entry point</li> </ul>	TSOs	Open (ends 21 May) Open (for PTL code Only – ends 1 June)  8 June (ends 22 June)
<b>Decisions published</b>		
Decisions on business rules <ul style="list-style-type: none"> <li>- Short term</li> <li>- VRF and entry point</li> </ul>	UR	Complete Complete
Decisions on tariff and licence mods	UR	29 June 2012
Decisions code drafting <ul style="list-style-type: none"> <li>- Short term</li> <li>- VRF and entry point</li> </ul>	UR	24 May 2012 26 June 2012
<b>Go-live</b>		<b>1 July 12 (short term capacity booking window to open later that month)</b>

**Annex 2 Example Charging Methodology Statement**

**Premier Transmission, Belfast Gas Transmission &  
BGE(NI)**

**Northern Ireland**

**Charging Methodology Statement  
for STC/VRF Charges**

[Date of Publication]

DRAFT

Version 0.2 for Discussion and Development

**Issued on [Date of Issue]  
[July 2012]**

**Effective from**

## Contents

1. Document Requirement .....	12
2. Governance .....	12
3. Daily Capacity Charges.....	13
4. Interruptible VRF Charges .....	15

## **1. Document Requirement**

The requirement to publish the Charging Methodology Statement is specified in section 2A.2.1.10 of Premier Transmission's, Belfast Gas Transmission's, and BGE(NI)'s Licences, which came into effect on xxx.

The Charging Methodology Statement sets out the basis for charges which are to be made by the TSOs for Short Term Capacity and Interruptible VRF Services under their Network Codes, and which are not otherwise set out in the Codes or the Licences.

This document meets the licence requirements of the TSOs to publish the Charging Methodology Statement.

## **2. Governance**

This Charging Statement is to be re-issued annually by the TSOs following submission to and approval by the Utility Regulator. It may not otherwise be varied or amended by the TSOs.

This document does not over-ride or vary any of the licence or Network Code obligations on the TSOs. For more information on this statement please contact:

PTL/BGTL contact details to be inserted here

BGE(NI) contact details to be inserted here

### 3. Daily Capacity Charges

The amount of a monthly payment of Daily Capacity Charges shall be calculated in accordance with the following formula, the components of which shall be applied in respect of month “m”;

$$\text{MPDCC}_m = \sum \text{DCA}_m \times M_m \times \text{FPCapC}$$

where:

MPDCC<sub>m</sub> means the monthly payment of Daily Capacity Charges payable by a Shipper in respect of month m; and

$\sum \text{DCA}_m$  means the aggregate of the Shipper’s allocated Daily Capacity in kWh for each day in month m; and

M<sub>m</sub> means the applicable Multiplier in respect of month m as set out in Table 1 below

FPCapC means the Forecast Postalised Capacity Charge as defined in the Licence at 2A.2.5.2.

**Table 1: Multipliers**

Short Term Multipliers	M
October	0.66%
November	0.66%
December	1.18%
January	2.06%
February	2.35%
March	1.76%
April	0.66%
May	0.40%
June	0.40%
July	0.40%
August	0.40%

Daily Capacity Charges shall be invoiced monthly in accordance with either [section 12.4 of Premier Transmission’s Network Code or section XX of BGE(NI)’s Network Code]. Please note that under

streamlining arrangements, Shippers pay only once for their Capacity, to the TSO at the final Exit Point at which the Shipper is offtaking gas.

#### **4. Interruptible VRF Charges**

The amount of the Interruptible VRF Charge shall be [£5000] per Exit Point Registration for Interruptible VRF Nominations, and/or per each extension of an existing Exit Point Registration for Interruptible VRF Nominations.

The full amount of the Interruptible VRF Charge shall be payable at the time of Registration (or extension of a Registration) at an Exit Point for Interruptible VRF Nominations, and annually thereafter in advance of the start of the Gas Year.

For the avoidance of doubt, Interruptible VRF Charges shall not be pro-rated to part of the Gas Year, and shall not include any commodity charge element.

Interruptible VRF Charges will be invoiced in accordance with either section 12.4 of Premier Transmission's Network Code or section [ xx ] of BGE(NI)'s Network Code. Please note that under streamlining arrangements, Interruptible VRF Charges will be payable only once in respect of the final Exit Point.

It should be noted that PS Code Charges may apply for any balancing or scheduling charges incurred as a result of Interruptible VRF Nominations, (for example where the Interruptible VRF Nominations result in physical flows of gas) and will be invoiced in accordance with section 12.6 of Premier Transmission's Network Code.