

# Introduction of Entry Capacity to Northern Ireland – Transitional Arrangements

Business Rules for Industry Consultation

Version 1.0

4<sup>th</sup> August 2014

## Contents

1.	Introduction: Background and Purpose .....	3
2.	Relevant Context.....	3
3.	Transition from Firm Capacity to separate Entry and Exit Capacity .....	4
4.	Provision of Initial Entitlements of Entry Capacity – General Principles .....	5
5.	Determination and Notification of Initial Entitlements of Entry Capacity.....	6
6.	Initial Entry Point Registrations.....	6
7.	Credit Requirements for Initial Entitlements of Entry Capacity .....	6
8.	Applications for Capacity in future Gas Years made during Gas Year 2014-2015.....	7
9.	Applications for October 2015 Capacity .....	9
10.	Applications for ‘within year’ capacity for Gas Year 2014-2015.....	10
11.	Surrender of Firm Capacity during Gas Year 2014-2015.....	10
12.	Surrender of Entry Capacity during Gas Year 2014-2015.....	11
13.	Shipper Forecast Information Required .....	11
14.	Tariff Calculations .....	11
15.	Long Term Use it or Lose it.....	11
16.	Oversubscription and Buyback .....	12
17.	Consultation Questions .....	12
18.	How to respond.....	12

## **1. Introduction: Background and Purpose**

- 1.1. This document sets out the Business Rules for the introduction of Entry Capacity into the Northern Irish Gas Transmission regime. To date the regime has operated on a point-to-point basis, under which Shippers may apply for Firm Capacity in respect of an exit point. Allocations of Firm Capacity carry a corresponding entitlement to capacity at the relevant entry point.<sup>1</sup>
- 1.2. It is necessary for Northern Ireland to comply with EU Regulations, specifically EU 715/2009, which requires (amongst other things) that charges for Entry and Exit Capacity should be levied separately, and also the CAM Regulation (EU 984/2013) which requires that capacity at interconnection points should be sold via an auction process.
- 1.3. Therefore, the NI TSO's (PTL, BGE(NI) and BGTL) are introducing Entry Capacity as a separate product, and from October 2015 Entry Capacity will be made available via the PRISMA auction platform. Entry Capacity products on offer will be in line with CAM and so will be Annual, Quarterly, Monthly, Daily and Within Day. From the start of October 2015, NI Entry Capacity will be offered as a 'bundled product', bundled with Exit Capacity from the upstream balancing zone (i.e. with GB exit capacity at Moffat and with ROI Exit Capacity at South North). More information about the details of CAM capacity products and the auction processes will be provided separately.
- 1.4. Shippers in NI have already made capacity bookings which extend beyond October 2015. Therefore, prior to the introduction of new Entry Capacity products in October 2015, it is necessary to transition Shippers existing capacity holdings into the new regime.
- 1.5. These Business Rules describe how and when Shippers entitlements to capacity in the NI Network will be transferred into the new regime. They also set out how the Capacity Application process will operate in the Gas Year 2014-2015 i.e. from the date of implementation of these Transitional Arrangements.
- 1.6. These Business Rules will be developed into a Code Modification Proposal and so will be effective, if approved, from the date of implementation of the Code Modification Proposal.

## **2. Relevant Context**

- 2.1. The following points are key elements of relevant context for these Business Rules:
  - a. Shippers (as opposed to the Distribution Network Operators (DNOs)) will be required to hold/buy any Entry Capacity they may require, from October 2015<sup>2</sup>;
  - b. It is likely that there will be no unbundled Firm NI Entry Capacity at Moffat available from October 2015, which means that Shippers who require Firm NI Entry Capacity at Moffat

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<sup>1</sup> To date the relevant entry point is Moffat, since no Shippers have made arrangements to deliver gas to NI via South North Entry Point.

<sup>2</sup> Subject to confirmation of this approach by UR.

will have to buy a bundled National Grid (NG)-PTL capacity product, and will therefore also need to be a Shipper on the NG system and hold any appropriate registrations as required by the upstream Transmission System Operator;

- c. From 1<sup>st</sup> October 2015, entry nominations which exceed a Shipper's Entry Capacity holding will be rejected;
- d. The TSOs are still considering whether or not to offer a Day Ahead Interruptible Entry Capacity product. This issue will be discussed and decided upon in conjunction with the CAM Business Rules;
- e. DNOs will continue to be required to book and hold (transmission) Exit Capacity on behalf of Shippers to their relevant Distribution Networks after October 2015;
- f. The TSOs intend that there will be minimal change to the rules for Exit Capacity as compared to existing rules in the NI Codes; i.e. the existing application procedures for Firm Capacity will continue to apply to Exit Capacity from 1<sup>st</sup> October 2015;
- g. The TSOs are proposing to hold a review of the Exit Capacity arrangements during 2016;
- h. From October 2015, PRISMA will be the Entry Capacity sales platform, and will also offer Secondary capacity trading functionality;
- i. The methodology for calculating tariffs for Entry Capacity (along with exit charges) is under development by the Utility Regulator (UR) and the TSOs understand this will be in place, in time for the advance calculation of prices for the Gas Year October 2015 - September 2016;
- j. The planned CJV between the TSOs will not be in place by Q3 2015. All the NI TSOs will co-ordinate/co-operate to enable streamlined and postalised charging to continue and to maintain efficient operation of the NI Network;

### **3. Transition from Firm Capacity to separate Entry and Exit Capacity**

- 3.1. From 1<sup>st</sup> October 2015, existing holdings of Firm Capacity in respect of an Exit Point will be treated as holdings of Exit Capacity for the same Exit Point, quantity and duration, and corresponding Initial Entitlements of Entry Capacity.
- 3.2. After 1<sup>st</sup> October 2015, Shippers' Exit Capacity and Entry Capacity holdings will be independent of each other, and therefore separately capable of increase/decrease using the processes provided for in the Codes. DNOs will still have responsibility for holding an aggregate quantity of Exit Capacity on behalf of Shippers supplying customers in their respective Distribution Networks.

#### **4. Provision of Initial Entitlements of Entry Capacity – General Principles**

- 4.1. Each Shipper will be provided with an ‘Initial Entitlement’ of (firm) Entry Capacity, i.e. a firm entry capacity entitlement corresponding to their existing Firm Capacity bookings (or the quantity of Firm Capacity held on their behalf by a DNO) in respect of future Gas Years starting October 2015 or thereafter.
- 4.2. Shipper’s Initial Entitlements of Entry Capacity will be for the same quantity and duration of Firm Capacity currently booked by (or for) that Shipper with the TSOs.<sup>3</sup>
- 4.3. Where capacity is currently booked/held on behalf of a Shipper by the DNO
  - a. [the DNO will determine the relevant quantity for each Shipper] or  
[the Initial Entitlement will be determined by PTL, equal to [peak][average] entry allocations over [preceding period]] ; and
  - b. the duration of the Initial Entitlement will be the same as that for capacity booked by the DNO on the Shipper’s behalf.
- 4.4. Where a Shipper has booked Firm Capacity for both distribution networks and/or multiple other Exit Points, its’ total Initial Entitlement of Entry Capacity will comprise the sum of that Shipper’s Initial Entitlements in respect of each Exit Point.
- 4.5. There shall be no differentiation between Initial Entitlements of Entry Capacity and any other subsequent Entry Capacity purchases after 1<sup>st</sup> October 2015 i.e. Initial Entitlements of Entry Capacity shall be considered as unbundled Entry Capacity in the new regime, with a duration as provided for in the Initial Entitlement.
- 4.6. From 1<sup>st</sup> October 2015, Shippers will be able:
  - a. to increase their Entry Capacity holding using the PRISMA auctions;
  - b. to offer to surrender their Entry Capacity to the TSO (see section 11 below)<sup>4</sup>;
  - c. to trade their Entry Capacity to other Shippers on the Secondary Market (which will also be provided via the PRISMA platform); and
  - d. to combine their Moffat Entry Capacity with their NG Exit Capacity from GB [(or in the case of South North, combine their South North Entry Capacity with their Gormanston Exit Capacity from ROI)] in order to make a capacity bundle at the relevant interconnection point. N.B. Shippers will need to be registered as Shippers and hold capacity on both sides of the relevant IP in order to form a capacity bundle.

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<sup>3</sup> Currently there is no Firm Capacity booked with South North corresponding Entry Point; therefore, all Initial Entitlements will be determined with reference to bookings with PTL.

<sup>4</sup> Surrender offers will only be accepted when there is unfulfilled demand for capacity.

## **5. Determination and Notification of Initial Entitlements of Entry Capacity**

- 5.1. In March 2015 the TSOs will determine Initial Entitlements of Entry Capacity, in line with the selected methodology set out in section 4 for all Shippers.
- 5.2. The TSOs will inform Shippers of their Initial Entitlements of Entry Capacity by [31<sup>st</sup> March 2015].

## **6. Initial Entry Point Registrations**

- 6.1. Existing Shippers will need to be registered at the relevant Entry Point in order to hold their Initial Entitlement of Entry Capacity.
- 6.2. Existing Shippers will automatically be provided with an Entry Point Registration for Moffat Entry Point.
- 6.3. The automatic registration of existing Shippers at Moffat Entry Point will take place in [January 2015].
- 6.4. At the time of writing there are no Shippers who have designated South North as the corresponding Entry Point for their existing Firm Capacity holding. If this remains the position there will be no automatic registration of Shippers for the South North Entry Point. If Shippers do make a booking [prior to January 2015], then the TSOs will also offer an automatic registration for the South North Entry Point.
- 6.5. Any existing Shipper who wishes to ship gas via the South North Entry Point in future Gas Years will be required to submit an Entry Point Registration form using the process which will be provided for in the Codes.
- 6.6. Any prospective Shipper wishing to ship gas via an NI Entry Point will need to accede to the (relevant) NI Network Code(s) and will be required to complete an Entry Point Registration form for the relevant Entry Point(s) as part of the accession process.

## **7. Credit Requirements for Initial Entitlements of Entry Capacity**

- 7.1. Shippers will need to place sufficient credit for their Entry Capacity and Exit Capacity holdings as of the start of Gas Year 2015-2016. It is assumed that this should not be a greater monetary value than a Shipper's current bookings require (unless it wishes to increase its overall capacity holding).
- 7.2. Credit rules will be developed to cover the new entry capacity products. The TSOs anticipate that the rules will broadly follow those in existence for Firm Capacity, in terms of types of credit, methods of placing credit and timescales for the provision of credit, etc. with specific additional requirements to address the issues arising from auction processes.

- 7.3. Where Shippers have an Initial Entitlement resulting from a DNOs current holding of Firm Capacity, it should be noted that Shippers will be required to hold less credit with DNOs and more with TSOs as a result.

## **8. Applications for Capacity in future Gas Years made during Gas Year 2014-2015**

- 8.1. The TSOs are using the fundamental principles behind the existing procedures and timescales currently used for (point-to-point) Firm Capacity (Codes sections 1.2 to 1.8) to develop the process for Capacity Applications during the Gas Year 2014 – 2015. Under these Transitional Arrangements, the process will be extended to permit applications for (annual) Entry Capacity as well. The following rules will apply from the implementation date of these Transitional Arrangements until 1<sup>st</sup> October 2015:

- a. Shippers may apply for (annual) capacity in future Gas Years by the Mid Year Date (in this case, 30<sup>th</sup> April 2015);
- b. A Shipper may specify whether its capacity application is:
  - i. a Joint Application for (the same quantity of) both Entry and Exit Capacity; and/or
  - ii. for Exit Capacity only; and/or
  - iii. for Entry Capacity only;
- c. Shippers may make more than one capacity application if they wish;
- d. Shippers should specify with their application:-
  - where it is an application for Exit Capacity or a Joint Application, the relevant Exit Point;
  - where it is an application for Entry Capacity or a Joint Application, the relevant Entry Point;
  - the future Gas Years for which they are applying for the capacity;
  - whether or not they are prepared to accept an application of an amount of capacity less than that for which they are applying;
- e. Subject to section 9 below, only annual capacity will be on offer;
- f. Applications for more than one future Gas Year must be for consecutive Gas Years only;
- g. Shippers' applications for capacity in future Gas Years submitted prior to 30<sup>th</sup> April 2015 will not be considered until after that date, such that all applications are considered together during May, in the 'May Assessment Window';

- h. Shippers applications for Exit Capacity in future Gas Years made after 30<sup>th</sup> April 2015 will only be considered at the TSOs discretion and will not attract an Initial Entitlement of Entry Capacity;
- i. Applications for Entry Capacity for future Gas Years may not be made after April 30<sup>th</sup> 2015;
- j. Exit Capacity which is the subject of a Joint Capacity Application will be allocated first, in line with the existing rules in the Code, i.e. if applications are for an amount of Exit Capacity exceeding that which is available:
  - Shippers who indicated they would not be prepared to accept an allocation for an amount of Exit Capacity less than they had applied for will not be allocated capacity; and
  - Shippers who indicated they would be prepared to accept an allocation for an amount of Exit Capacity less than had applied shall have capacity allocated as follows;
  - Allocations will be made with priority given to Shippers applying for the largest number of years, and pro-rata thereafter;
- k. Next, Entry Capacity which is the subject of a Joint Application will be allocated to match the quantity of Exit Capacity allocated in accordance with j above);
- l. Next, individual Exit Capacity applications will be considered, and Exit Capacity will be allocated made using the same principles which currently apply for Firm Capacity. i.e. if applications are for an amount of Exit Capacity exceeding that which is available:
  - Shippers who indicated they would not be prepared to accept an allocation for an amount of Exit Capacity less than they had applied for will not be allocated capacity; and
  - Shippers who indicated they would be prepared to accept an allocation for an amount of Exit Capacity less than had applied shall have capacity allocated as follows:
  - allocations will be made with priority given to Shippers applying for the largest number of years, and pro-rata thereafter;
- m. Finally, individual Entry Capacity applications will be considered and Entry Capacity allocated using the same principles which currently apply for Firm Capacity, i.e. if applications are for an amount of Entry Capacity exceeding that which is available:
  - Shippers who indicated they would not be prepared to accept an allocation for an amount of Entry Capacity less than they had applied for will not be allocated capacity; and
  - Shippers who indicated they would be prepared to accept an allocation for an amount of Entry Capacity less than had applied shall have capacity allocated as follows:



- allocations will be made with priority given to Shippers applying for the largest number of years, and pro-rata thereafter;
- n. The TSOs will notify Shippers of their allocations of Exit and Entry Capacity for future Gas Years resulting from this application process by [31<sup>st</sup> March 2015].

## 9. Applications for October 2015 Capacity

- 9.1. As part of the transition to CAM rules, the TSOs must coordinate with upstream TSOs to enable the sales of bundled capacity, but there is a mismatch between the required implementation date of CAM (1<sup>st</sup> November 2015) and the start of the Gas Year (1<sup>st</sup> October 2015). National Grid will be making capacity available for bundled sales at Moffat via PRISMA from 31<sup>st</sup> October 2015, and Gaslink at South North, in line with CAM requirements.<sup>5</sup> Since NI is introducing Entry Capacity for the first time from the start of the Gas Year 2015-2016 there is a need to consider separately how NI Entry capacity will be sold for the month of October. Regardless of the sales process, during October 2015 only, NI Entry Capacity will be sold unbundled. Bundled capacity will only be available at Moffat after National Grid commences PRISMA auctions on 31<sup>st</sup> October and at South North after Gaslink commences PRISMA auctions on 31<sup>st</sup> October. The intended approach to selling NI unbundled Entry Capacity for October 2015 is set out in the remainder of this paragraph.
- 9.2. The NI TSOs will make processes available for Shippers who wish to buy Entry Capacity for the month of October 2015. The sales process is under development, pending discussion with Shippers as to likely requirements, but options include:
- a. Capacity for the month of October 2015 only would also be offered for sale during April 2015 Application Window; and/or
  - b. A monthly auction for October 2015 capacity, to be held mid-September [on PRISMA or manually] ; and/or
  - c. Daily (D) and Day Ahead (D-1) Auctions for Daily Capacity to be made available [on PRISMA] starting 31<sup>st</sup> September 2015.
- 9.3. Where a sales process other than PRISMA is used, the processes may be manual/workaround, due to IT implementation schedules.
- 9.4. The TSOs may take a different approach in respect of South North and Moffat Entry Points, for October 2015 Entry Capacity sales only.
- 9.5. The precise sales process will be confirmed in advance and Shippers will be provided with reasonable notice.

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<sup>5</sup> First auction for National Grid's Day Ahead capacity will be on 31<sup>st</sup> October 2015. National Grid's first CAM Monthly auctions will be during November for December capacity. Please also refer to National Grid's Code drafting for more information.

## **10. Applications for ‘within year’ capacity for Gas Year 2014 - 2015**

10.1. The existing rules in the Codes section 1.9 for ‘within year’ capacity applications will apply, such that:

- a. Shippers may apply for Firm Capacity ‘within-year’ (i.e. for the remainder of the Gas Year) up to 10 days ahead of the month in which it is first required;
- b. Shippers may apply for Daily Capacity using the existing month-ahead process.

10.2. The TSOs will assess capacity applications for ‘within year’ Firm Capacity, and accordingly allocate such Firm Capacity, in line with the existing timescales and rules in the Codes section 1.9.

10.3. ‘Within year’ capacity bought for use during Gas Year 2014-2015 will be considered as Firm Capacity in the point-to-point regime with a duration ending 31<sup>st</sup> September 2015, and hence will not provide Shippers with any Initial Entitlement of Entry Capacity.

## **11. Surrender of Firm Capacity during Gas Year 2014-2015**

11.1. Shippers may apply to surrender existing holdings of Firm Capacity broadly in accordance with the existing rules (Codes section 1.11), with some changes, as outlined below:

- a. Shippers may only apply to surrender Firm Capacity in respect of a whole Gas Year;
- b. Applications to surrender Firm Capacity made during Gas Year 2014-2015 will be treated as applications to surrender Exit Capacity for the relevant Gas Year(s);
- c. Shippers may apply to surrender Firm Capacity for the following Gas Year by the Mid Year date (i.e. 30<sup>th</sup> April 2015 for capacity for the Gas Year 2015-2016);
- d. Shippers may apply to surrender Firm capacity for Gas Years after the next Gas Year (i.e. for Gas Years 2016-2017 onwards) at any time during Gas Year 2014-2015. Such applications will be considered at the Mid Year date prior to the relevant Gas Year;
- e. the TSOs will consider Surrender Applications in line with the rules and timescales for Firm Capacity in the Codes. Accordingly, Surrender Applications will only be met if there is unfulfilled demand for Exit Capacity;

## **12. Surrender of Entry Capacity during Gas Year 2014-2015**

- 12.1. Provided that there is no unfulfilled demand for Entry Capacity for Gas Year 2015-2016 as a result of applications for capacity received by 30<sup>th</sup> April 2015, it will not be possible for Shippers to surrender Initial Entitlements of Entry Capacity during Gas Year 2014-2015. If during the May Assessment Window the TSOs determine that there is unfulfilled demand for Entry Capacity, they will hold a short window inviting Shippers to surrender Entry Capacity, with terms to be provided at the time.
- 12.2. It is intended that from 1<sup>st</sup> October 2015, rules for surrender of Entry Capacity will be in place. It is anticipated that they will follow the same model as currently in place for Firm Capacity in the Codes (i.e. surrender applications will only be accepted if there is unfulfilled demand for capacity).

## **13. Shipper Forecast Information Required**

- 13.1. Shippers will be required to provide forecast capacity and commodity information in June, in line with current Codes requirement for information provision for the 5 year statement. For June 2015 this information will be required by the 10<sup>th</sup> working day and will need to be in relation to both entry and exit capacity, and exit and entry commodity and will also be required for a 10 (ten) year period, to facilitate compliance with the EU requirement to produce a Ten-year Statement.

## **14. Tariff Calculations**

- 14.1. Subject to development of the approach by UR, it is anticipated that (entry and exit) prices [based on Forecast Required Revenue] for Gas Year 2015-2016 (and indicative prices for Gas Years thereafter) will be published in line with existing timescales i.e. by July/August 2015.

## **15. Long Term Use it or Lose it**

- 15.1. The rules for Long Term UIOLI which were added to the Codes for compliance with CMP (in the point-to-point regime) will need amendment for the purposes of compliance with CAM to reflect the introduction of separate Entry Capacity products. CAM compliant LTUIOLI rules will be needed in respect of Entry Capacity, and these will be developed in conjunction with National Grid and Gaslink (as they will need to apply in relation to bundled capacity products).
- 15.2. Prior to the introduction of CMP UIOLI, the NI regime had rules for an annual review of Firm Capacity, as an 'anti-hoarding' measure. The TSOs anticipate that similar rules will be added to the Codes in relation to Exit Capacity, to apply for 1<sup>st</sup> October 2015 onwards.

## **16. Oversubscription and Buyback**

16.1. Arrangements for OS and BB were added to the Codes for CMP compliance, and relate congestion issues at entry to point-to-point capacity holdings. With the introduction of separate (and bundled) Entry Capacity products, OS and BB rules will need to be adapted to apply independently at Entry Points and in conjunction with upstream TSOs. It is anticipated that there will not be any OS and BB rules at Exit.

## **17. Consultation Questions**

Shippers and other interested parties are invited to give their views on any aspects of these Business Rules. In particular, the TSOs would particularly welcome views on the following:

- i) the approach to allocating Initial Entitlements where DNs currently hold exit capacity;
- ii) the capacity application process for April 2015, including the proposed approach for offering capacity;
- iii) Shippers preferences/likely requirements for Entry Capacity for October 2015;
- iv) any other questions or concerns about the approach.

Responses may be marked as confidential and will be treated accordingly

## **18. How to respond**

Shippers wishing to respond to this document are requested to provide their views on or by **29th August 2014**. Responses may be made in writing or by email, or directly to the TSOs.

Written responses should be provided to:

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