

# Financial Security Policy Amendments arising from introduction of Capacity Allocation Mechanisms (Regulation: EU 984/2013)

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## Business Rules

Code Modification No. A065

### *Business Rules for Industry Consultation*

22<sup>nd</sup> May 2015

**Version 2.0**



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Supporting Documentation:

Date	Source	Document
15 April 2013	European Commission	Commission Regulation (EU) No 984/2013 of 14 October 2013 on Capacity Allocation Mechanisms in Gas Transmission Systems.
16 October 2014	Gaslink	Capacity Allocation Mechanism (CAM) at Interconnection Points: Implementing Regulation (EU) No 984/2013 – Business Rules. Version 3.0 (Code Modification A062)
1 April 2013	Gaslink	Consolidated Gaslink Code of Operations Version 4.0 as approved by the CER.
28 March 2013	Gaslink	Financial Security Policy. Policy No. FS01
1 April 2009	Gaslink	Financial Security Policy for Short-Term Products Version 1.0 – CER Approved.

**Table 1 - Supporting Documentation**

## **CONSULTATION PERIOD**

Comments are requested on or before 12<sup>th</sup> June 2015.

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## 1. BACKGROUND AND PURPOSE

- 1.1.1 The Financial Security Policy outlines a Shipper's requirement to provide financial security with respect to its payment obligations to the Transporter. The Financial Security Policy sets out the procedures to be followed in relation to the calculation of the financial security amount, the form and approval of financial security, how the Transporter monitors a Shipper's financial security balance and when the Transporter may make a demand on a Shipper's financial security.
- 1.1.2 The purpose of this document is to define the new business rules required to make changes to the Financial Security Policy resulting from implementation of the CAM Network Code.
- 1.1.3 Notwithstanding that the CAM Network Code applies to Interconnection Points (IP) only, it is proposed that the financial security rules at non-IP's will also be modified to help align with the rules at IP's. This is to ensure that a competitive advantage does not arise due to differences between IP's and non-IP's.
- 1.1.4 These proposed changes are based on the CAM Network Code business rules version 3.0 (Code Modification A062) which have been completed and approved by the CER. The CAM Network Code business rules as approved by the CER, have not proposed to change any of the products currently offered at the indigenous Entry points, Inch and Bellanaboy<sup>1</sup>, or any of the current Exit Points.
- 1.1.5 There may be consequential changes to be made to the Code of Operations as a result of these proposed changes to the Financial Security Policy.
- 1.1.6 As defined in the CAM Network Code (Regulation 984/2013), all products offered at IP's will be offered in a bundled format. The rules defined in this document will only apply to that portion of a bundled product offered in Ireland. The Transporter on the other side of each IP will implement its own financial security rules which are outside the scope of this document.
- 1.1.7 As previously notified to the Code Modification Forum, other work is being carried out in reviewing the existing Financial Security Policy and that work will remain independent of these proposed changes. Details of that separate work can be found in the slides and the minutes of the Code Modification Forum meetings of [April](#), [May](#) and [August](#) 2014.

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<sup>1</sup> Bellanaboy is the proposed Entry Point to the Irish Gas Network for gas from the Corrib Gas Field which at the time of publication of this document had not yet commenced production.

## 2. KEY PROPOSED CHANGES

It is proposed that the Financial Security Policy be amended as follows:

- 2.1.1 No financial security needs to be in place at the time of the auction on the PRISMA platform for Annual and Quarterly Capacity products. It should be noted however, that a Shipper will be required to have financial security in place for these products prior to the Effective Date of the product, as set out in Table 2 of this document.
- 2.1.2 For the purposes of this Business Rules document, Day-Ahead and Within-Day capacity products shall together be referred to as “Daily” capacity products.
- 2.1.3 In order for a Shipper to take part in auctions for Monthly, Day-Ahead and Within-Day capacity on the PRISMA Platform, the shipper will be required to have financial security in place in advance of these auctions, as set out in Table 2 of this document.
- 2.1.4 The financial security instrument used by the Shipper (Letter of Credit, Deposit Agreement etc.), will need to be valid for a configurable number of days from the effective date of the product. Section 6.4.2 of this document defines the configurable number of days to be 86 days though this is subject to change based on ENTSOG’s timing of the Monthly Capacity auction on PRISMA.
- 2.1.5 For Example, A shipper booking Monthly Capacity for a 31 day month will be required to have 31 days’ worth of financial security in place at the time of the auction. The financial security instrument (Letter of Credit, Deposit Agreement etc.) will need to be valid for a period of 86 days (configurable number of days) from the date of the Capacity auction.
- 2.1.6 If a Shipper does not have financial security in place at the time required in respect of booked Annual or Quarterly capacity, the Transporter:
  - a) shall at that time withdraw the booked Annual or Quarterly capacity and re-enter such capacity in the auction for a Monthly capacity product with the same Effective Date as the Annual or Quarterly capacity; and
  - b) May issue that Shipper with a fine<sup>2</sup> or such other penalty as deemed appropriate by the Regulator.
- 2.1.7 The Transporter will issue Shippers with notice of the requirement for financial security in respect of Annual or Quarterly capacity in advance of the time required for having such financial security in place.
- 2.1.8 If a Shipper does not have financial security in place at the time required in respect of Monthly or Daily capacity, the Shipper’s bids in the relevant auction will be automatically rejected.

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<sup>2</sup> The purpose of the fine would be to protect against capacity hoarding, unnecessary contractual congestion and to protect the integrity of the capacity auctions.

- 2.1.9 Where a Shipper is required to provide financial security to the Transporter, that Shipper must, through the Gas Transmission Management System (GTMS), specify the amount of financial security to be applied in respect of that Shipper's capacity at IP's (i.e. on the PRISMA Platform) and capacity at non-IP's (i.e. on GTMS).
- 2.1.10 Before assigning a Shipper's financial security amount to the PRISMA Platform, GTMS will calculate the excess financial security available to that Shipper. In the event that the excess financial security available to that Shipper as calculated by GTMS is lower than the Shipper's requested financial security for the PRISMA Platform, the lower figure will be submitted to the PRISMA Platform.
- 2.1.11 Shippers will have the ability to move their excess financial security between GTMS for use in booking Capacity at points other than IP's and for booking Capacity be able to move financial security between GTMS and PRISMA but if a shipper wishes to partake in a PRISMA auction they will have to ensure that they have the necessary security in place.
- 2.1.12 In the event that a shipper has used at least 80% of its posted financial security, it will receive an automated message from GTMS informing the shipper of the fact. This message will only be issued once the 80% figure has been reached or surpassed. For a subsequent message to be issued, the shipper's excess (available) financial security amount would have had to have first dropped below the 80% level.
- 2.1.13 Once a shipper has used 100% of its available financial security, it will be issued with a notice informing them of the fact and requiring that they replenish their security within 2 business days. This 2 business day period will end at the close of business, 5 PM 2 business days after the issue date of the replenishment notice. During this 2 day period, the Shipper will be allowed to continue to book capacity without financial security.
- 2.1.14 The primary change for Annual and Monthly products at non-IP's is that financial security will be required to be in place 8 days prior to the product effective date rather than 2 business days as is currently required.
- 2.1.15 The primary change for daily products at non-IP's is that full financial security will be required to be in place at the time of booking the Capacity products rather than the current requirement of not having financial security in place at the time of booking.
- 2.1.16 A new financial security instrument will be introduced in the form of a non-interest bearing deposit account. Its purpose will be to allow shippers to add and withdraw funds without any long term obligations. This will facilitate shippers in replenishing financial security within the above mentioned 2 business day window.
- 2.1.17 The existing deposit agreement, using an interest bearing account will be modified to include a requirement that the shippers cannot withdraw funds within 12 months of depositing them.

### 3. DEFINED TERMS

The list below includes only those terms which have been defined with the sole purpose of aiding understanding of this business rules document. Accordingly, Gaslink reserves the right to alter such terms when developing Code legal drafting at a later date. Capitalised terms used in this business rules document and not listed below signify existing terms as defined in the Code of Operations.

**CAM Network Code** means Commission Regulation (EU) No 984/2013 of 14 October 2013 on Capacity Allocation Mechanisms in Gas Transmission Systems.

**Financial Security Policy** means Version 3.0 of the Gaslink Financial Security Policy “FS01” and the associated “Financial Security Policy for Short-Term Products”.

**PRISMA Platform** means the joint web based platform used to offer, obtain and allocate capacity at IP’s, operated by PRISMA European Capacity Platform GmbH, Schillerstrasse 4,04 109 Leipzig, Germany.

**Quarterly Capacity** means capacity for all gas days in a particular quarter starting on the 1<sup>st</sup> October, 1<sup>st</sup> January, 1<sup>st</sup> April or 1<sup>st</sup> July respectively.

**Termination Notice** means a notice from the Transporter to a Shipper terminating that Shipper’s booked Annual or Quarterly capacity, such notice having immediate effect from the date thereof.



## 4. EXISTING FINANCIAL SECURITY RULES

### 4.1. Existing Product Listing

The following table provides a list of the products currently available in the Code of Operations and the applicable rules for financial security.

Product	Financial Security Rules
Annual and Multi-Annual products	Financial Security equivalent to 72 days of Capacity charges, commodity charges and VAT to be in place before a capacity booking can be approved.
Monthly product	Financial Security equivalent to 100% of the Capacity charges, commodity charges and VAT to be in place before a capacity booking can be approved.
Daily product	The Financial Security Policy does not require Financial Security to be in place at the time of the Capacity Booking. However the Financial Security liability will be calculated after the booking has been approved and the Shipper will be obliged to put any additional Financial Security in place upon request by the Transporter.

## **5. FINANCIAL SECURITY MANAGEMENT IN PRISMA**

As outlined in the CAM Network Code and [CAM Business Rules](#), all Capacity being marketed at an IP must be auctioned on a Capacity Booking Platform that is managed by the TSO's at the IP or by a third party on their behalf. Gaslink in conjunction with its adjacent TSOs, National Grid and GNI (UK) will use PRISMA as its Capacity Booking Platform at each of its IPs, currently Moffat and the South-North Connected System Exit Point (CSEP).

### **5.1. Methods of posting Financial Security**

Currently shippers are required to post financial security with the Transporter using one of the instruments defined in the financial security policy as follows:

- Letter of Credit;
- Charged Account;
- Cash Deposit;
- Parental Company Guarantee; or
- “*Other*” as approved by the Regulator.

The Transporter maintains a real time record of the shipper's financial security status on GTMS which takes account of all existing obligations.

### **5.2. Shipper management of financial security on PRISMA**

- a) Shippers have the ability to review their financial security status through GTMS and to determine the “excess” security available for future transactions.
- b) “Excess” refers to that portion of a shipper's financial security which has not been used as security for a capacity booking.
- c) For a shipper to take part in a PRISMA auction, it may be required to have financial security in place as outlined in section 6.3.
- d) Though a shipper's financial security status is maintained on GTMS, shippers will be responsible for assigning a portion of this security to the PRISMA platform to allow the shipper to take part in auctions for capacity products at an IP.
- e) To assign financial security to a PRISMA auction the shipper will have to designate through a GTMS screen, the amount of financial security it wishes to assign to the PRISMA platform for use in PRISMA auctions. This financial security will then only be available for use in PRISMA auctions and not for booking capacity at a non-IP. The shipper's balance of available financial security on GTMS will be reduced accordingly.

- f) The Shipper will have the ability through GTMS to increase the amount of financial security it has assigned to PRISMA. These increases will be checked by GTMS to ensure that the Shipper has sufficient excess financial security available.
- g) The Shipper will also have the ability through GTMS to decrease the amount of financial security it has assigned to PRISMA. When a shipper reduces the amount of financial security it has assigned to PRISMA, no checks will be carried out to see if the shipper has outstanding obligations on the PRISMA platform. However, GTMS will calculate the shipper's excess security available based on the results of PRISMA auctions and bookings at non-IP's.
- h) Shippers will be provided with an early warning system to alert them to the fact that they have utilised 80% of their posted financial security. This will result in a message being sent from GTMS to the Shipper.
- i) This message will only be issued when the 80% figure has been reached or surpassed. For a subsequent message to be issued, the shipper's excess (available) financial security amount would have had to have first dropped below the 80% level.
- j) When a shipper has used all of its posted financial security it will receive an automatic notification via GTMS and will be given two (2) business days to replenish its security. During this two day period, the shipper will be allowed to continue trading as normal without any requirements for financial security. This two day period will cease at the close of business, defined as 5:00 PM on the second business day.

### **5.3. Deposit Agreement**

The existing financial security instrument, the Deposit Agreement, will be modified to include a rule that shippers will not be able to withdraw funds for a period of at least 12 months after making the deposit in this interest bearing account.

A new financial security instrument will be added in the form of a non-interest bearing Deposit Agreement. This Agreement will enable shippers to add and withdraw funds on an as needed basis thus enabling them to meet the requirements of a 2 business day notice as defined in Section 5.2 (i) above.

Shippers will have the ability to setup a non-interest bearing Deposit Agreement without any funds. On setting up the Agreement, the shipper will be provided with the necessary account details to enable the depositing of funds in the account. To make a withdrawal from this non-interest bearing account, the shipper will be required to make a withdrawal request to their Key Account Manager (KAM).

## 6. PROPOSED FINANCIAL SECURITY RULES

### 6.1. CAM Network Code Capacity Products

The CAM Network Code specifies the capacity products which the Transporter is required to offer at IP's as set out in Table 2 below.

- a) A Multi-Annual capacity product will not be available at IP's but will still be available at non-IP's. However, a Shipper will be able to book up to (but no more than) fifteen consecutive Annual capacity products at one time on the PRISMA Platform; and
- b) The CAM Network Code provides for a new Quarterly capacity product.

Product	Auction Frequency	Auction Start (Default)	Product Start Time	Expected First PRISMA Auction <sup>3</sup>	Proposed Financial Security Requirement
Annual	Once a year	1 <sup>st</sup> Monday in March in each Gas Year	1 October	Monday 7 <sup>th</sup> March 2016	Financial security not required at the time of the PRISMA auction. Security equal to 72 Days of Capacity charges, commodity charges and VAT will be required ten calendar days prior to the Monthly auction with the same Effective Date as the Annual or Quarterly product (as the case may be).
Quarterly	Once a year	1 <sup>st</sup> Monday in June in each Gas Year	1 October 1 January 1 April 1 July	Monday 6 <sup>th</sup> June 2016	

<sup>3</sup> Based on default dates in Regulation 984/2013 (CAM Network Code).

Product	Auction Frequency	Auction Start (Default)	Product Start Time	Expected First PRISMA Auction <sup>4</sup>	Proposed Financial Security Requirement
Monthly	Once a month <sup>a</sup>	3 <sup>rd</sup> Monday of preceding month	1 <sup>st</sup> of each month	16 <sup>th</sup> November 2015 for December 2015	Full financial security, equivalent to 1 month of capacity charges, commodity charges and VAT will be required at the time of the Monthly auction.
Day-Ahead	Once a day	15:30 D - 1	05:00 D	15:30 on 31 <sup>st</sup> October 2015 for 1 <sup>st</sup> November 2015	Full financial security, equivalent to 1 day of capacity charges, commodity charges and VAT will be required at the time of the Day-Ahead auction.
Within-Day	Once every hour	18:00 local time D - 1	Hour bar + 4 hours from start of the Within-Day auction	18:00 on 31 <sup>st</sup> October 2015 for 05:00 on 1 <sup>st</sup> November 2015	Full financial security, equivalent to 1 day of Capacity charges, commodity charges and VAT will be required at the time of the Within-Day auction.

Table 2 - CAM Products

<sup>4</sup> Based on default dates in Regulation 984/2013 (CAM Network Code).

## **6.2. Proposed requirements for Annual and Quarterly CAM capacity products**

It is proposed that:

- 6.2.1 Financial security will not be required at the time a Shipper takes part in an auction for Annual and Quarterly capacity on the PRISMA Platform. However, a Shipper must have in place financial security for Annual or Quarterly capacity at a later time prior to the Effective Date of such capacity, as per Table 2.
- 6.2.2 As is currently the case, Shippers will be required to put 72 days of financial security in place for Annual and Quarterly capacity.
- 6.2.3 This financial security must be in place 10 calendar days prior to the day of the auction for monthly capacity which has the same Effective Date as the Annual or Quarterly capacity, as per Table 2.
- 6.2.4 If a Shipper does not have financial security in place at the time required in respect of booked Annual or Quarterly capacity, the Transporter:
  - a) Shall withdraw the booked Annual or Quarterly capacity and enter such capacity in the auction for a Monthly capacity product with the same Effective Date as the Annual or Quarterly capacity; and
  - b) May issue that Shipper with a fine or such other penalty<sup>5</sup> as deemed appropriate by the Regulator.
- 6.2.5 The Transporter will issue Shippers with notice of the requirement for financial security in respect of Annual or Quarterly capacity as part of its Monthly Financial Security Review two months prior to the effective month of the Annual or Quarterly product.
- 6.2.6 As an example, the Transporter will notify a shipper of its financial security obligations in August for an Annual product with an effective date of 1 October.
- 6.2.7 Shippers must provide financial security in the same form and manner as prescribed in the current Financial Security Policy.

## **6.3. Proposed requirement for Monthly and Daily CAM capacity products**

Shippers will post financial security with the Transporter in the same manner as is in place in the current Financial Security Policy. It will be the responsibility of the Shipper to assign a portion of this security to the PRISMA platform. Assignment of financial security to PRISMA will take place using GTMS.

It is proposed that:

- 6.3.1 Financial security for Monthly and Daily capacity products must be in place on the PRISMA Platform in order for a Shipper to take part in auctions for Monthly and Daily

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<sup>5</sup> The purpose of the penalty would be to protect against capacity hoarding, unnecessary contractual congestion and to protect the integrity of the capacity auctions.

capacity as those auctions take place close to the Effective Date of those capacity products.

- 6.3.2 It is proposed that Shippers will be required to put financial security in place to cover the entire period of the Monthly or Daily capacity booking.
- 6.3.3 In the case of a Monthly capacity, this will be one month of capacity charges, commodity charges and VAT.
- 6.3.4 In the case of Daily capacity, this will be one Day of capacity charges, commodity charges and VAT.
- 6.3.5 The financial security put in place for Monthly or Daily capacity products must be active for a configurable number of days, currently estimated to be 86 calendar days (see the timeline for invoicing set out in figure 1 and figure 2 below).
- 6.3.6 If a Shipper does not have financial security in place at the time of the auction for Monthly or Daily capacity, the Shipper's bids in the relevant auction will be automatically rejected.
- 6.3.7 Where a Shipper is required to provide financial security to the Transporter, that Shipper must, through GTMS, specify the amount of financial security to be applied in respect of that Shipper's capacity at IP's (i.e. on the PRISMA Platform) and capacity at non-IP's (i.e. on GTMS).
- 6.3.8 The Shipper will have a facility through GTMS to specify the amount of financial security that it wants assigned to PRISMA for auctions at IP's.
- 6.3.9 Prior to assigning this financial security to the PRISMA platform, GTMS will determine the Shipper's excess financial security. This is the amount of financial security for which there are no obligations. It is the lower of this figure and the shipper's requested amount that will be transferred to PRISMA.
- 6.3.10 In determining whether sufficient excess financial security is available to a Shipper for assignment to the PRISMA Platform, the Shipper will have to consider all of its other financial security obligations, including those at non-IP's.
- 6.3.11 A facility will be offered through GTMS to allow a shipper to transfer financial security from GTMS to PRISMA and to bring financial security back from PRISMA to GTMS.

#### **6.4. Short Term Auction and Billing Cycles**

In order to determine the number of days for which financial security remains in place for short term products, an analysis of the auction and billing cycle has been carried out. This analysis looks at the cycle from the auction through to the possible draw down date of financial security in the event of non-payment of an invoice. The purpose of this review is to define the number of days for which the shipper has to have financial security in place

with respect to Monthly and Daily products. It should be noted that payment of an invoice will result in the release of the financial security obligations related to that invoice.

- 6.4.1 Irrespective of the capacity product being booked, the Transporter will invoice the Shipper on a monthly basis for all capacity booked in the previous month. Table 1Table 3 outlines the timelines for invoicing, receiving payments and drawing down financial security if necessary.

<b>Time</b>	<b>Action</b>
12 Business Days into the month after which the Capacity was used.	Invoice Issued
12 calendar days after invoice date  <b>OR</b>  2 business days prior to month end;  Whichever is later?	Payment Due
5 Business Days after Payment Due Date.	Financial Security may be drawn down by the Transporter.

**Table 3**

- 6.4.2 Based on the timelines in Figure 1 and Figure 2, the longest period of exposure for the Transporter with respect to short term products and based on the auction timing outlined in Regulation 984/2013 is 86 days. This figure of 86 days is subject to change based on the publication of the ENTSOG auction calendar.
- 6.4.3 It is proposed that a Shipper bidding in an auction for short term capacity should have sufficient financial security in place to cover the capacity charges, commodity charges and VAT for the capacity booking and that such financial security should remain in place for a configurable number of days, currently estimated to be 86 based on the CAM NC. If the shipper’s financial security is valid for a period less than the configurable number of days then they will be deemed to not have sufficient financial security in place to take part in the auction and their available financial security on PRISMA will be set to zero.



### 6.4.4 Monthly Auction Cycle

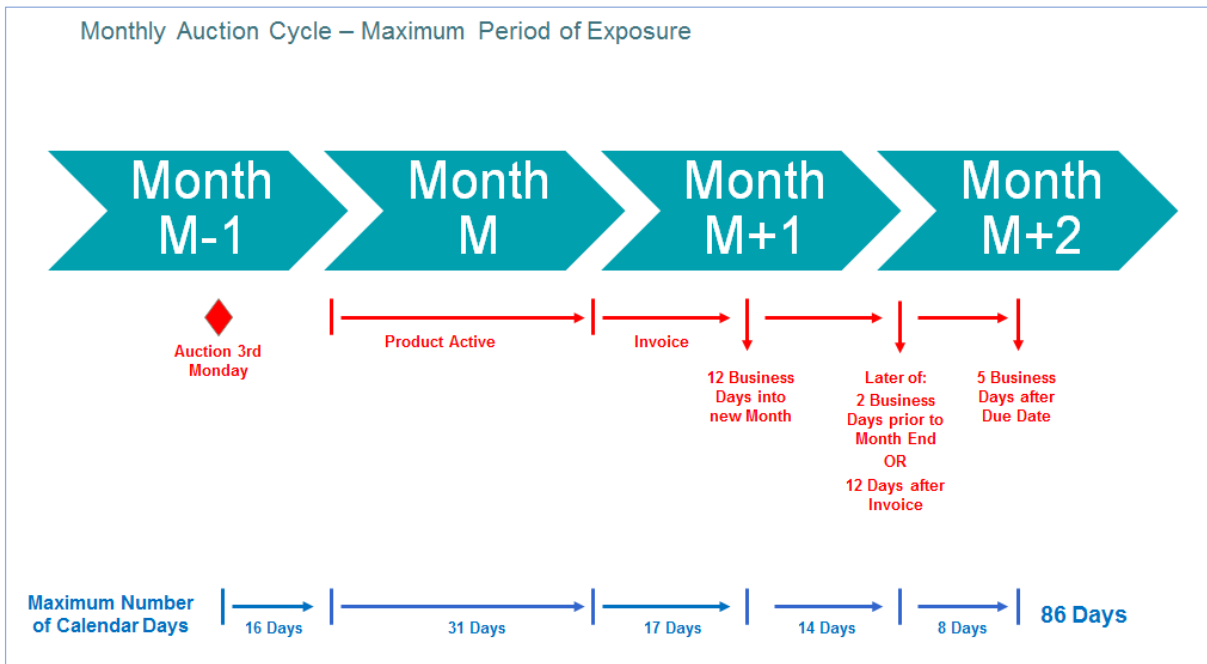


Figure 1

### 6.4.5 Daily Auction Cycle

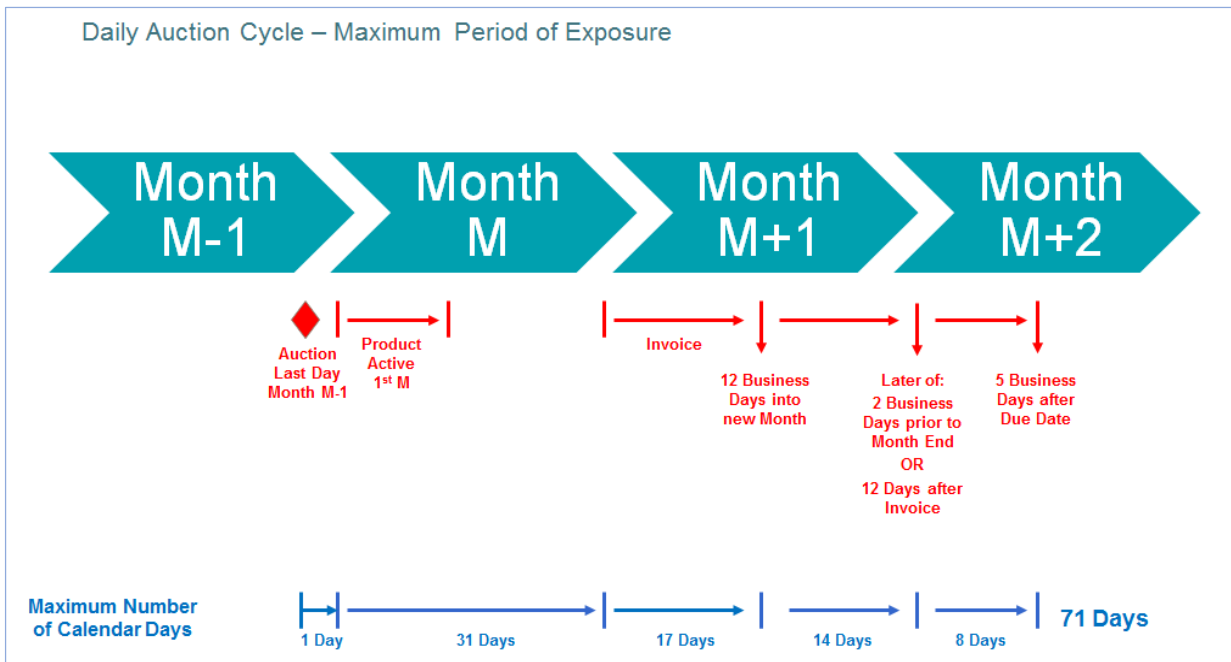


Figure 2

## 7. APPLICATION OF PROPOSALS TO NON INTERCONNECTION POINTS

### 7.1. Introduction

Although the CAM Network Code is to be implemented at IP's, the changes to the existing financial security requirements will have an effect on existing Exit and indigenous Entry Points. To ensure consistency across all points, it is proposed to modify the financial security requirements at non-IP's to achieve consistency with IP's.

### 7.2. Current situation

7.2.1 The CAM Network Code defines a range of capacity products to be offered at IP's. The CAM Network Code does not deal with capacity products to be offered at non IP's.

7.2.2 The CAM Business Rules as published by Gaslink propose that the capacity products currently available under the Code of Operations should remain in place at non-IP's.

7.2.3 The capacity products currently available under the Code of Operations are:

- Multi-Annual;
- Annual;
- Monthly;
- Day Ahead; and
- Within-Day.

7.2.4 Table 4 below outlines the current requirements for financial security for the various products available in the Code of Operations.

Product	FS Required Date	FS Amount Required
Multi-Annual and Annual	Within 10 Business Days of the submission of the application for the Capacity booking  OR  2 business days prior to the effective date prior to the requested effective date for the capacity booking.	72 Days of Capacity charges, commodity charges and VAT.

Product	FS Required Date	FS Amount Required
Monthly	Within 10 Business Days of the submission of the application for the Capacity booking  OR  2 business days prior to the effective date prior to the requested effective date for the capacity booking.	1 month of Capacity charges, commodity charges and VAT.
Day-Ahead and Within-Day	Capacity booking is pre-approved upon submission and financial security is required to be put in place after the effective date.	1 day of Capacity charges, commodity charges and VAT.

Table 4

### 7.3. Proposed requirements to capacity products at non Interconnection Points

7.3.1 The following table outlines the proposed financial security requirements for all capacity products at non-IP's. The primary change in this proposal is that financial security will now be required at the time of booking daily products. Under the current system, the booking is pre-approved and the shipper is required to put the financial security in place after the approval of the booking.

<b>Product</b>	<b>FS Required Date</b>	<b>FS Amount Required</b>
Annual	8 Days prior to the Capacity effective date.	72 Days of Capacity charges, commodity charges and VAT.
Monthly	8 Days prior to the Capacity effective date.	1 month of Capacity charges, commodity charges and VAT.
Day-Ahead and Within-Day	FS required prior to the confirmation of the capacity booking.	1 day of Capacity charges, commodity charges and VAT.

**Table 5**

- 7.3.2 In the event that a shipper does not have sufficient financial security in place at the time of booking a product at a non-IP, the booking will be rejected. This applies to all capacity products including Daily which had no such restrictions up to this point.

## 8. FINANCIAL SECURITY SUMMARY

The following table summarises the proposed financial security requirements for all products available on the Irish Gas Network. It should be noted that products at the IP's are offered in a bundled format and these rules only apply to that portion of the product on the Irish side of the IP's.

	Non – Interconnection Point Products			Interconnection Point Products		
Product	Existing Product	FS Required at time of booking	Level of FS Required	CAM Product	FS Required at time of Auction?	Level of FS Required at auction
Multi-Annual	✓	✓	72 days	✗	N/A	N/A
Annual	✓	✓	72 days	✓	✗	0 %
Quarterly	✗	N/A	N/A	✓	✗	0 %
Monthly	✓	✓	100%	✓	✓	100%
Day-Ahead	✓	✗	100% to be put in place after booking is approved	✓	✓	100%
Within-Day	✓	✗	100% to be put in place after booking is approved	✓	✓	100%