17th November 2014

Initial Modification Report

Code Modification A064

'Virtual Reverse Flow: Enhanced flexibility and compliance with EC Network Codes'

1. Introduction, Background and Related Documents

This IMR is published further to the modification proposal form issued by the Transporter on 10th September 2014 and should be read in conjunction with the business rules document issued on 19th September 2014. Documents relating to Code Modification Proposal A064 can be accessed on the Transporter's website. This IMR covers the period between the publication of the business rules and the code mod forum that was held on the 22nd October 2014. A Final Modification Report (FMR) will be published by the Transporter following the completion of the VRF business rules and will summarise all discussions that have taken place on the proposal.

In relation to background information, please refer to V1.0 of the business rules consultation document, Chapter 1 of which includes a synopsis of the key drivers behind this modification, outlines the modification's scope, and highlights the key features of note arising from the proposals contained within.

By way of brief summary, the scope of the modification includes the following topics:

- VRF Registration Process;
- Available VRF Capacity Calculation;
- Daily VRF Capacity Joint Booking Platform
- Within-day Interruptible Capacity;
- VRF Nominations;
- VRF Interruptions;
- VRF Allocations.

2. Proposed Modification

The proposed modification is described in detail in V1.0 of the Enhanced VRF Business Rules on the Gaslink website however a high level summary is provided in this document.
The major changes that are proposed to amend the existing VRF product are as follows:

a) VRF Capacity – the amount of VRF capacity that will be made available for registered Shippers will be calculated in advance of the day-ahead VRF Capacity auction that will be offered on the joint booking platform;
b) Capacity booking mechanism – in accordance with the CAM regulation, Daily VRF Capacity will be auctioned on the joint booking platform in the 15:30 (local time) auction on D-1;

c) The within-day Interruptible Capacity product at the IP will be made available through during the Re-nomination Period of 17:00 D-1 – 02:00 D by way of an Over-nomination process;
d) Available VRF Capacity that remains unsold following the PRISMA auction plus additional VRF Capacity that becomes available due to an increase of the Forward Flow Nominations will be made available to Shippers during the Renomination Period;
e) Valid Nominations in excess of Shippers' VRF Capacity bookings will be processed through the over-nomination procedure. The Over-nomination procedure will increase the total of the Shipper's VRF Capacity to equal the total of their valid Nominations;
f) In the event that the Transporter can no longer facilitate VRF Nominations received from Shippers for whatever reason, the Transporter will change the Shippers' Confirmed Quantity (CQ) to level no less that the Shippers' deemed VRF flow at the effective time of the interruption. Shippers will not be required to Renominate their VRF Nomination as a result of the interruption;
g) An interruption hierarchy will be based on the effective time of the Capacity bookings of each Shipper. In an effort to simplify this process the effective time of Capacity booked in the Joint Capacity Auction will be 16:30 D-1, the effective time of Capacity booked via an over-nominations during the period before the gas day will be 05:00 D and the effective time of Capacity booked via Over-nominations within the gas day will be deemed to be 05:01 D;
h) VRF Capacity products with the same effective time will be interrupted pro-rata to their booked Capacity;
i) Shipper's Allocations will be based on rules set out in the Interoperator Agreement (IA).

3. Estimated System Impacts, Costs, and Implementation Timelines

The table below provides a representation of the estimated impacts of the proposed modification with reference to the various subject areas of the proposal:

	Code Impact	IT Impact
VRF Registration Process	NONE	NONE
Available VRF Capacity Calculation	HIGH	HIGH
Daily VRF Capacity Joint Booking Platform	MEDIUM	MEDIUM
Within-day interruptible Capacity Over-nominations	HIGH	HIGH
VRF Nominations	HIGH	HIGH
VRF Interruptions	HIGH	HIGH
VRF Allocations	MEDIUM	MEDIUM

As per Decision Paper CER/14/140 of 27th August 2014 (*'Decision on BGN Allowed Revenues and Gas Transmission Tariffs for 2014/15'*), the projected costs associated with the implementation of the European Network Codes (namely, Capacity Allocation Mechanisms (CAM), Congestion Management procedures (CMP), Balancing (BAL), Interoperability & Data Exchange (INT&DE), and Tariffs (TAR)) over a four year period up to Gas Year 2016/17 is €6,961,632 of which €5,000,000 is IT capital expenditure to be spent between 2014/15 and 2015/16.

On the 9th April '14, the Transporter circulated a 'high-level requirements specification document to industry which estimated the costs of systemising a less complicated product that did not consider over-nominations or an interruption hierarchy. The Transporter estimated that the costs would be in the region of €300,000 - €400,000 at that time. On completion of the VRF business rules, the Transporter will update this cost estimate and present it to industry

The Transporter has been directed by the CER to implement the enhanced VRF product in line with the EU Network Code project at the earliest possible date.

4. Summary of written responses from Industry

- VRF is essential for balancing the market in Ireland and reducing the market power of incumbent forward flow shippers;
- Enhanced VRF should be implemented by October 2015 at the latest;
- Application of a Minimum Forward Flow at Moffat is inconsistent with the Transporter's Network Development Plan;
- Not batching compressors in certain circumstances such as VRF diminishes cross border trade and restricts flows of gas between markets;
- Shippers would like the methodology for determining the Minimum Forward Flow at Moffat to be consulted on;
- Shippers request that interruptions as a result of a minimum flow event should be justified after the event;
- Shipper would like to see the forward and reverse flow auction windows aligned;
- The available within-day VRF capacity should be equal to the VRF capacity that has not been nominated on irrespective of bookings;
- Shippers understand the risks associated with an interruptible product such as VRF and expect to be interrupted;
- In the event of an interruption, Shippers request that VRF capacity will be interrupted or curtailed on a pro-rata basis.

5. Summary of Industry discussions

VRF workshops were held on the 24th September and the 22nd October where the following comments were made:

- Business rules v1.0 were welcomed by Shippers who recognised that many of the features previously requested by Industry had been included in the proposal;
- Shippers have requested that the enhanced VRF product is developed in a simple cost effective manner;
- Industry representatives objected strongly to any proposed limitation of the level of VRF Capacity to be made available. They urged the Transporter to make the full Technical Capacity of Moffat available in the reverse direction, stressing that subsequent interruptions to the flow based on actual forward flows and reverse flow nominations on any given day are to be expected;
- Industry representatives requested the Transporter to consider amending the proposal such that VRF Capacity booked in the day-ahead auction which has not been nominated on, is made available for over-nomination for the other Shippers during the relevant period. If the original Shipper then subsequently nominates on the Capacity booked in the auction, the Shippers who over-nominated on the Capacity would be interrupted as per the interruption hierarchy e.g. last to book Capacity, first to be interrupted;
- Members of industry have expressed concerns over the complexity of the product and have requested that the product is kept simple where necessary.

6. Transporter's Assessment of the Proposed Modification

It is the Transporter's view that the proposed modification detailed in v1.0 of the business rules creates flexibility for Shippers by facilitating over-nominations within the Day, increases the available VRF Capacity by fully systemising interruptions, reduces admin for Shippers by eliminating the need for Shippers to act in the event of an interruption and complies with the requirements of the CAM Network Code by introducing a day-ahead PRISMA auction.