

Initial Modification Report

Code Modification A071:

*‘Alternative Capacity Arrangements in event of GNI Interruptions
to Flow’*

1 April 2016

Issued for Consultation



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1. Introduction

This Initial Modification Report is published further to the modification proposal form issued on 19 January 2015 and the ensuing consultation period for that proposal, as well as discussions regarding same which took place at the Code Modification Fora on 27 January 2016 and 9 March 2016.

Code Modification Proposal A071 '*Alternative Capacity Arrangements in event of GNI Interruptions to Flows*' is proposed by Bord Gais Energy Ltd, and proposes that in the event of an interruption to supply caused by maintenance activities carried out by the Transporter the affected Shipper(s) should be provided with alternative capacity at Moffat, at no additional cost to the Shipper(s).

This proposal arose out of the discussions that took place on Code Modification Proposal A069 '*Back-up Capacity Arrangements under new tariffing regime*' which was proposed by the Irish Offshore Operator's Association (IOOA).

2. Proposed Modification

This proposal is put forward to account for an occasion where a Shippers Entry Capacity at an indigenous Entry Point might be interrupted due to either planned or unplanned maintenance carried out by the Transporter.

Should this happen under the current provisions of the Code of Operation, a Shipper will potentially need to source alternative Entry Capacity at another Entry Point, at an additional cost to the Shipper. If a Shipper does not source alternative Entry Capacity they may incur imbalance charges and/or overrun charges as a result.

Under this proposal should the Transporter interrupt a Firm Entry Capacity booking due to maintenance or operational issues, the Transporter would make the equivalent amount of capacity as notified by the Transporter in the interruption notice available to the affected Shipper(s) at Moffat, at no additional cost to the Shipper(s). This would be done by providing the affected Shipper with a rebate for any alternative Entry Capacity they had to purchase as a result of the interruption.

3. Summary of Written Consultations & Forum Discussions

3.1. Written Consultation re Modification Proposal Form

Following publication of the proposal form and the proposer's presentation at the Code Modification Forum in August, written responses were invited to the proposed modification. The Transporter received 6 responses from:

1. ESB
2. Gas Networks Ireland
3. Irish Offshore Operators Association (IOOA)
4. Kinsale Energy Ltd. (IOOA)
5. Statoil (UK) Ltd. (IOOA)
6. Vermillion Energy (IOOA)

The responses can be broadly categorised as follows:

- 4 respondents *fully supported* the proposal; and

- 2 respondents *reserved their position* pending receipt of further detail, while conditionally highlighting a number of queries and concerns.

ESB GWM Response

- Transporters attempts to minimise impact of maintenance on Shippers has worked well.
- Requested more information on proposal as unclear whether modification is necessary.
- Suggested more discussion and analysis in relation to volume and duration of interruptions by Transporter due to maintenance.

Gas Networks Ireland Response

- As a Reasonable Prudent Operator the Transporter must be allowed to maintain the network without consideration to anything other than operational integrity of network.
- Outlined potential for short term market distortion when a Shipper can avail of capacity at Moffat in the knowledge a full rebate will be granted.
- Looked for further information in relation to:
 - What constitutes an interruption
 - Why is the alternative capacity only available at Moffat
 - Why a Shipper gets rebated for capacity at Moffat and not for affected capacity

IOOA Response

- Fully supports proposal, but queried why the Modification only allows Moffat as an alternative Entry Point.
- Commented in relation to discussions at previous Code Modification Forum:
 - Believes a perverse incentive exists for the Transporter that interruptions caused by Transporter can result in an increase in capacity booking revenues
 - Believes Transporters operational procedures would not be affected
 - Proposal would have no impact on revenue forecasting due to infrequency with which interruptions occur, and Transporter would continue to receive capacity booking revenues at affected point
 - Believes proposal is necessary to ensure no discrimination against shippers at indigenous Entry Points, given higher level of redundancy at the Moffat Entry Point
 - Excess capacity at Moffat means there is no likelihood of market distortions occurring as a result of this proposal
- Kinsale Energy, Statoil and Vermilion fully support IOOA's response.

3.2. Summary of Forum discussions

This Code Modification was presented initially at the Code Modification Forum on 27 January 2016, and was discussed again at the Forum on 9 March 2016 following the consultation period on the initial proposal. The main points raised at the Fora were as follows:

27 January 2016:

- The CER queried whether the affected Shipper would get rebated for the affected Entry Point or the alternative Entry Point, to which BGE stated that the rebate would be for the capacity at the alternative Entry Point.

- The CER and the Transporter noted that the modification would have to be considered in light of compliance with EU Network Codes, as well as Shippers competing in an auction knowing that they would get a rebate.
- The Transporter queried whether the proposal would apply even on Maintenance Days, to which BGE stated their belief that it should.
- The proposer stated its belief that the infrequent requirement for the modification would mean the cost of its application would be low, and that it would incentivise the Transporter to carry out maintenance at off-peak times.

9 March 2016:

- The proposer made a number of points in relation to questions raised in the consultation:
 1. Why would alternative capacity only be available at Moffat? The proposer felt that all Shippers were already active/registered at Moffat, which might not be the case at other Entry Points. From a practical point of view the proposer also felt that it would be easier to identify any additional capacity that had been purchased as a result of a Transporter interruption at Moffat than at another Entry Point. However, the proposer stated that they had no objection to the alternative Entry Capacity being made available at other Entry Points.
 2. Stated that the proposal for a rebate to be applied to the capacity is so that the issue of Shippers paying different prices for the same product in an auction at the time of the auction does not arise, and thereby ensures CAM compliance.
 3. The proposer felt that the Modification proposal was unlikely to lead to gaming given the short notice period of any interruption that would be received by an affected Shipper(s).
- An industry participant made the following points:
 - The Transporters revenues would not be affected as Shippers would still be paying for the capacity at the affected Entry Point.
 - The proposal would not impact on the Transporter operationally, the Transporter would still maintain the network in a safe manner.
- Discussions took place as to which Entry Point an affected Shipper should get a rebate for. The proposal states that the rebate should be for the alternative Entry Capacity procured. A number of participants queried why a Shipper wouldn't get a rebate for that capacity which had been interrupted.
- Seeing the reasons for the Commission's decision on Modification proposal A069 would be helpful to Shippers before making final comments on proposal A071.

4. Estimated System Impacts, Costs, and Implementation Timelines

The proposer has stated that the affected Shipper(s) would receive a rebate for the cost of alternative capacity purchased at Moffat, while acknowledging that the alternative capacity could be acquired at any other Entry Point also. This methodology would see the Shipper(s) invoiced as usual for any Entry Capacity they purchased as part of an auction, with a credit note issued following the issuing of invoicing to reimburse the cost of the capacity to the Shipper(s).

This methodology would likely not require any IT systemisation costs, however it would require an additional manual process to be carried out by the Transporter in the event the proposed modification is to be implemented.

5. Transporter's Assessment of the Proposed Modification

The Transporter would like to highlight the point that interruptions to a Shipper's flow caused by Gas Networks Ireland are extremely rare.

This point was made and acknowledged by a number of participants in the Code Modification Forum, as well as in the consultation period for this proposal.

All works carried out by the Transporter are necessary and for the benefit of users of the Transportation network, i.e. Producers, Shippers and End Users. Such maintenance ensures a continuous high level of service and facilitates the implementation of essential service improvements. The Transporter is committed to cooperating with Shippers and Producers when carrying out maintenance in order to minimise disruption to the industry.

Further information is required in relation to the circumstances envisaged by the modification proposal.

The Transporter sees that Gas Networks Ireland may initiate interruptions to a Shipper's flow onto the Transportation system in any of the following circumstances:

1. Planned GNI maintenance to onshore equipment (as agreed with Shippers and/or Producers and provided for in the Code of Operations).
2. Unplanned GNI maintenance to onshore equipment (e.g. resulting from a leak/failure of equipment).
3. Emergency maintenance arising from damage caused to onshore equipment caused by a third party.
4. In the event of insufficient demand on the network affecting the Transporters ability to transport gas effectively around the network, which would consequently affect the ability to continue to accept gas onto the system.

The Transporter requests that the proposer, and the industry in general clarify the specific relevant scenarios in which they envisage this proposal applying.

The proposer's acknowledgement that the alternative Entry Capacity could be sourced at any Entry Point, and not necessarily at Moffat is noted. However it is still unclear why an affected Shipper would get a rebate for the alternative capacity sourced as opposed to the affected capacity.

The Transporter does not agree with the statement that a perverse incentive exists for the Transporter to interrupt flows in order to increase capacity booking revenues. The Transporter operates under a revenue cap economic model, with any over or under recovery against allowed revenues in a given year leading to compensatory adjustments in future years.

The Transporter acknowledges that the current absence of congestion at the Moffat IP means that this proposal is unlikely to have an impact on the clearing price of auctions at the Moffat IP in the short term. However were congestion to occur at any stage in the future this proposal could then adversely affect other Shippers partaking in capacity auctions at the Moffat IP.

The above constitutes the Transporter's assessment of the proposal taking into account consultation responses and discussions to date, and welcomes discussions on the above points at the next Code Modification Forum.

6. Consultation period in respect of IMR

Comments in respect of this Initial Modification Report and/or the associated business rules may be submitted to MarketDevelopment@GasNetworks.ie by close of business on 15 April 2016.