

Draft Procedural Document for Shippers: Incremental Capacity

(In light of CAM Amendment)

21st February 2017



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Supporting Documentation

[Amended EU CAM Network Code](#)

[Original EU CAM Network Code](#)

[Code Modification A062: Capacity Allocation Mechanisms](#)

[UK Proposed Code Modification 0597 *“Rules for the release of incremental capacity at Interconnection Points”*](#)

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1 Introduction to CAM Amendment

The [Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems](#) (CAM NC) was adopted as a European Commission Regulation under the reference COMMISSION REGULATION (EU) No 984/2013 of 14th October 2013. This EU CAM NC was introduced into the [Code of Operations](#) (Version 5.0) via Code Modification [A062: Capacity Allocation Mechanisms](#).

An [Amendment to the CAM NC](#) was approved by the Gas committee of EU Member States representatives on October 13th 2016, and is expected to be effective from 1st April 2017.

The Transporter welcomes industry views on Proposed Code Modifications A081 and A082 (see relevant Proposal Forms).

Following a review of the requirements of the CAM Amendment, the Transporter concludes that, in order to ensure compliance with EU rules, changes are required to the following three of the Code:

- A move in the Annual Yearly IP Capacity Auction from March to July, *with effect from 2018 onwards (see Proposed Code Modification Form A081)*;
- A change in the way in which quarterly capacity is to be auctioned, *from August 2017 onwards (the new quarterly capacity auctions at IPs will occur four times per Auction Year, instead of just once) (see Proposed Code Modification Form A081)*; and,
- New rules concerning Incremental Capacity (*which is the focus of this Procedural Document*).

Incremental Capacity is essentially 'new build' capacity, which is to be provided if there is sufficient 'user commitment'. The Transporter (Gas Networks Ireland) proposes to include appropriate references in the Code to reflect the relevant provisions of the CAM Amendment concerning the incremental process at IPs. In addition, Section 3 of this Document outlines the procedural steps for Shippers to refer to concerning Incremental Capacity.

2 Incremental Capacity

2.1 Scene Setting

The Amendment to the EU Capacity Allocation Mechanism (CAM) Regulation (EU 984/2013) requires inclusion of rules for the assessment of market demand for Incremental Capacity, the technical design, and the allocation of such Incremental Capacity, which is to remain co-ordinated with the upstream transporters. According to the CAM Amendment, “*a streamlined and harmonised Union-wide process for the offer of incremental capacity is necessary to react to possible market demand for such capacity*”.

Incremental Capacity is additional capacity that is needed at an existing IP, due to growing gas consumption and flow pattern changes. If existing networks and infrastructure are evaluated as being insufficient to meet capacity requirements of the gas market, investment in Incremental Capacity may be considered appropriate, following a review of technical, security of supply and economic considerations.

Since the CAM NC Amendment is applicable at IPs, it is anticipated that Incremental Capacity will be sold as bundled capacity. The process is intended to be a joint one with the Adjacent TSO at the IP, although it is also possible for the relevant TSOs to run the process independently.

Code Modification A082 (*‘Establishing Framework and Rules for the Acquisition and Release of Incremental Capacity at IPs’*) (see the relevant Proposal Form) has been proposed in light of the CAM Amendment.

Premier Transmission Limited (PTL) and GNI (UK) Limited in Northern Ireland and National Grid in the UK are currently undertaking similar consultations on proposed Code Modifications¹, in light of the CAM NC Amendment. Gas Networks Ireland has agreed to consult with its neighbouring TSOs to ensure alignment on proposed Code Modifications concerning Incremental Capacity.

The rules for Incremental Capacity in the CAM Amendment are focussed on the situation where it is policy that new investment should be funded, at least in part, by ‘user commitment’, i.e. where Shippers are allocated some of the new capacity if they make a binding commitment to pay for it.

Dependent on when the CAM Amendment comes into force (envisaged to be 1st April 2017), the first market demand assessment for Incremental Capacity shall be conducted in April 2017.

¹ See proposed UK Code Modification [0597](#) “*Rules for the release of incremental capacity at Interconnection Points*”.

Section 3 outlines the specific process steps to be followed, in order to determine if Incremental Capacity is required and if so, how such Incremental Capacity should be delivered, approved, and allocated. Legal Code drafting will be required, in the context of the relevant principles incorporated in this Procedural Document. This will particularly be the case where there are contractual implications and interactions with Shippers. Changes to the Code may include a reference to this Procedural Document (or may be self-contained within the Code), depending on the level of granularity and specification required.

2.2 Clarification, Interpretation and Acronyms

2.2.1 Clarification

In the event of any inconsistency between the process steps detailed in this Procedural Document and the provisions of the Code of Operations in relation to Capacity at IP Entry Points, the provisions of the Code shall prevail to the extent of such inconsistency.

The rules for Incremental Capacity in the Amended CAM Code are focussed on the situation where it is policy that new investment should be funded at least in part by ‘user commitment’, i.e. where Shippers are allocated some of the new capacity if they make a binding commitment to pay for it.

For the avoidance of doubt, Article 8 (10) of the Amended CAM Code states that where a TSO takes a final investment on a project to increase capacity without requiring user commitment, the capacity which is made available is simply auctioned as regular IP capacity (and the provisions of this Procedural Document would not apply in this case). If this new capacity includes Firm Reverse Flow IP Exit Capacity, the provisions that apply to IP Entry Capacity in this Code shall apply, *mutatis mutandis*, to Firm Reverse Flow IP Exit Capacity.

In reading this Procedural Document, please note the following:

- Any newly defined terms in Section 2.2 have been defined with the sole purpose of aiding the understanding of this Procedural Document. The Transporter reserves the right to alter such terms, at any stage in the future.
- Capitalised terms used elsewhere in this Procedural Document and not listed in this section signify existing terms from the Code of Operations.

2.2.2 Interpretation and Definitions

- **“The Code”** refers to the GNI Code of Operations (version 5.0).
- The **“Amended CAM Code”** means the Commission Regulation (EU) establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems and repealing Commission Regulation EU No 984/2013, as amended from time to time.
- Throughout this Document, references to the **“Transporter”** and **“TSO”** are used interchangeably.
- **“Alternative Allocation Mechanism”** means an allocation mechanism for Offer Level or Incremental Capacity designed on a case-by-case basis by the TSO, and approved by the NRA, to accommodate conditional demand requests.

- **“Binding Bids”** means bids submitted by Shippers for Incremental Capacity in an ICAM which are not subject to any conditions.
- **“Binding Conditional Bids”** means bids submitted by Shippers for Incremental Capacity in an ICAM which are subject to certain conditions as specified in Section 3.4.5.
- **“Design Phase”** means the period during which the Transporter shall prepare a draft project proposal for publication in accordance with Section 3.2.
- **“Economic Test”** means a test which is, or is to be, applied to assess the economic viability of an Incremental Capacity Project, the parameters of which are set out in Section 5.2.
- **“f-factor”** means the proportion, approved by the Regulatory Authority, of the present value of the estimated increase in the allowed revenue of the Transporter associated with the Incremental Capacity to be offered to Shippers, which must be covered by the Total Bid Value made by Shippers in the ICAM.
- **“Incremental Capacity”** means IP Entry Capacity that is, or is to be:
 - (i) provided via an increase in Technical Capacity at an entry IP and/or via investment in physical infrastructure; and
 - (ii) allocated to Shippers subject to the positive outcome of an appropriate economic evaluation (i.e. an Economic Test);
 and/or Firm Reverse Flow IP Exit Capacity that is, or is to be:
 - (i) provided via the provision of physical reverse flow at an Interconnection Point; and
 - (ii) allocated to Shippers subject to the positive outcome of an appropriate economic evaluation (i.e. an Economic Test);
- **“Incremental Capacity Allocation Mechanism”** or **“ICAM”** means the allocation mechanism specified by the Transporter for the allocation of Incremental Capacity in accordance with Section 3.4.
- **“Incremental Capacity Process”** is a process held in accordance with Section 3.1 to assess the market demand for Incremental Capacity that includes:
 - i. A non-binding phase in which Shippers may express and quantify their demand for Incremental Capacity; and
 - ii. A binding phase in which Binding Conditional Bids and/or Binding Bids are requested from Shippers and Incremental Capacity is accordingly allocated to such Shippers if there is a positive outcome to the Economic Test.
- **“Incremental Capacity Project”** is a project to increase the amount of Technical Capacity at an existing Interconnection Point, deliver Firm Reverse Flow IP Exit Capacity at an existing IP and/or establish a new Interconnection Point based on capacity allocation in an earlier Incremental Capacity Process.
- **“Incremental Capacity Project Solution”** means the solution for delivering Incremental Capacity determined during the Design Phase.

- **“Potential Premium”** means an additional amount to be added to the Capacity Charges for the relevant Gas Years to be specified by the Transporter, subject to approval by the Regulatory Authority.
- **“Ad-hoc Market Demand Assessment”** has the meaning given to it in Section 3.1.3.
- **“Approved Project Proposal”** has the meaning given to it in Section 3.3.4.
- **“Conditional Demand Indications”** has the meaning given to it in Section 3.1.5(f).
- **“Draft Project Proposal Consultation”** has the meaning given to it in Section 3.2.3.
- **“Incremental Capacity Project Proposal”** has a meaning given to it in Section 3.3.2.
- **“Joint Economic Test”** has the meaning given to it in Section 3.5.8.
- **“Late NBDI”** has the meaning given to it in Section 3.1.8 and **“Late NBDIs”** shall be construed accordingly.
- **“Market Demand Assessment”** has the meaning given to it in Section 3.1.1.
- **“Market Demand Assessment Report”** has the meaning given to it in Section 3.1.10.
- **“Non-Binding Demand Indications”/“NBDIs”** has the meaning given to it in Section 3.1.4 and **“Non-Binding Demand Indication”/“NBDI”** shall be construed accordingly.
- **“Revenue Contribution Required”** has the meaning given to it in Section 3.5.3.
- **“Total Bid Value”** has the meaning given to it in Section 3.5.2(a).

2.2.3 Acronyms

CAM	Capacity Allocation Mechanism
EUTYDP	EU-wide Ten-Year network Development Plan
ICAM	Incremental Capacity Allocation Mechanism
NBDIs	Non-Binding Demand Indications
NRA	National Regulatory Authority
TSO	Transmission System Operator

3 Procedural Steps for Acquiring and Releasing Incremental Capacity

As detailed in the [CAM Amendment](#) (Recital 11):

“A streamlined and harmonised Union-wide process for the offer of incremental capacity is necessary to react to possible market demand for such capacity. Such a process should consist of regular demand assessments followed by a structured phase of design and allocation, based on effective cooperation between transmission system operators and national regulatory authorities across Union borders. Any investment decision to be taken further to the assessment of market demand for capacity should be subject to an economic test to determine the economic viability. This economic test should in turn ensure that network users demanding capacity assume the corresponding risks associated with their demand to avoid captive customers from being exposed to the risk of such investments”.

Each **“Incremental Capacity Process”** is to comprise:

- A non-binding market demand assessment phase, where Shippers can submit non-binding demand indications;
- A design phase, if there is demand indicated in the market demand assessment;
- Project approval; and if approved,
- Incremental Capacity allocation, where Shipper submit binding bids, and if an Economic Test is passed, shall be allocated Incremental Capacity accordingly.

Each of these phases are described in more detail below, in addition to the specific procedural steps to follow. The Transporter shall assess the demand for, offer and allocate Incremental Capacity for which user commitment is required, in accordance with this Procedural Document.

3.1 Market Demand Assessment

This is the first stage in the process, during which the TSO will invite Shippers to submit Non-Binding Demand Indications (NBDIs) in a window of up to 8 weeks, immediately following the start of the Annual Yearly Auctions. The Regulation stipulates that the first process must run in 2017. This means that the first process must commence in April 2017, whereas from 2019, the process will start in July, given the change in the scheduling of the Annual Yearly Auctions from March to July in 2018.

A fee will be payable on submission of a NBDI, refundable if the Economic Test is later passed. The fee will be set to cover the full costs of assessing the NBDIs including any technical design or feasibility studies that may be required. Such costs will generally be significant, requiring specific expertise, and hence it is anticipated that the fees will be substantial. This will also provide an incentive for Shippers to submit NBDIs only if they have genuine and serious interest in making a binding commitment for the capacity, should the project proceed. It is anticipated that a fee will be payable; the amount of which will be subject to approval by the Regulator. It should be noted that nothing in this proposed Code Modification or in the CAM

Amendment prevents Shippers and TSOs from informally discussing future requirements at any time.

Following the window for submission of NBDIs, the TSO has 8 weeks in which they must produce a Market Demand Assessment Report, jointly with the Adjacent TSO where applicable.

The contents of a NBDI and the Market Demand Assessment Report are largely prescribed by the CAM Amendment, as are certain items which must be taken into account in their production.

Shippers are allowed to submit NBDIs outside of the 8-week window, but the TSO then has discretion over whether to include them in the current process for consideration or defer them to the next Incremental Capacity Process. When a Shipper submits a NBDI, they may specify if there are any conditions that would apply to their preparedness to make a binding commitment – for example allocation of a minimum amount of capacity or allocation for a number of years.

The TSO must respond to individual Shippers within 8 weeks of receipt of an NBDI, letting them know whether their NBDI will be taken into account in this process, or whether consideration will be deferred.

The Transporter will also publish the Market Demand Assessment on its website.

Procedural Steps to follow - Market Demand Assessment

- 3.1.1 The Transporter shall assess market demand for Incremental Capacity in accordance with this Section 3.1 (“**Market Demand Assessment**”).
- 3.1.2 The Transporter shall, in each odd-numbered year, as soon as practicable after the Annual Yearly IP Capacity Auctions, conduct the Market Demand Assessment.
- 3.1.3 The Transporter may carry out an additional assessment of market demand for Incremental Capacity in an even-numbered year (“**Ad-hoc Market Demand Assessment**”) including in co-ordination with the Adjacent TSO, where relevant. Such Ad-hoc Market Demand Assessment:
 - (a) may commence at any time during the year;
 - (b) shall follow such timescales as shall be determined by the Transporter and notified to Shippers with the invitation to submit Non-Binding Demand Indications issued, pursuant to Section 3.1.4;
 - (c) shall be concluded before the start of the next Annual Yearly Auctions; and the remaining procedural steps of Section 3 of this document, with the exception of the prescribed timescales, shall apply *mutatis mutandis* to any Ad-hoc Market Demand Assessment.

Invitation to submit Non-Binding Demand Indications

- 3.1.4 When carrying out a Market Demand Assessment in accordance with Section 3.1.2 or an Ad-hoc Market Demand Assessment in accordance with Section

- 3.1.3, the Transporter shall invite Shippers to submit “**Non-Binding Demand Indications**”/“**NBDIs**” as further described in Section 3.1.5. Templates for completion of the NBDIs may be provided by the Transporter.
- 3.1.5 NBDIs shall express a Shipper’s request for Incremental Capacity, and shall specify at least the following:
- (a) each IP at which the Shipper wishes to obtain Incremental Capacity;
 - (b) for each IP specified in Section 3.1.5(a), the relevant side or sides of the IP on which Incremental Capacity is requested;
 - (c) the Gas Year(s) for which Incremental Capacity is requested;
 - (d) the amount of Incremental Capacity requested at each IP specified in Section 3.1.5(a);
 - (e) relevant information about corresponding NBDIs submitted, or being submitted, to Adjacent TSOs to which the Shipper’s request for Incremental Capacity is linked;
 - (f) any conditions which the Shipper wishes to specify in relation to its NBDI and the information it specifies pursuant to Sections 3.1.5(a) to 3.1.5(e), which may include but not be limited to the conditions set out in Section 3.4.5 (“**Conditional Demand Indications**”).
- 3.1.6 The Transporter’s invitation to submit NBDIs shall specify:
- (a) any relevant fees which the Transporter may apply in relation to any activities arising from the submission of the NBDIs;
 - (b) the deadline for the submission of NBDIs, which shall be no later than 8 weeks after the start of the Annual Yearly Auctions;
 - (c) any other information the Transporter considers to be relevant to the current Incremental Capacity Process or future Incremental Capacity Processes.
- 3.1.7 Any fees applied by the Transporter pursuant to Section 3.1.6(a) shall be:
- (a) reflective of the administrative costs associated with assessing NBDIs including costs associated with the “**Design Phase**”;
 - (b) approved in advance by the Regulatory Authority;
 - (c) published on the Transporter’s website;
 - (d) payable at the time of submission of an NBDI;
 - (e) reimbursed to Shippers where there is a positive outcome of the “**Economic Test**”, in respect of the relevant Incremental Capacity.
- 3.1.8 A Shipper may submit an NBDI after the deadline specified in Section 3.1.6(b) (a “**Late NBDI**”).
- 3.1.9 At the sole discretion of the Transporter, Late NBDIs may be considered:
- (a) during the current Incremental Capacity Process; and/or
 - (b) during future Incremental Capacity Processes.

Market Demand Assessment Report

- 3.1.10 No later than 8 weeks after the start of the Annual Yearly Auctions, the Transporter shall, in co-ordination with the Adjacent TSO, where relevant, commence the production of a report on its Market Demand Assessment (the “**Market Demand Assessment Report**”).
- 3.1.11 The Market Demand Assessment Report shall take into account:
- (a) whether the EUTYDP or the Ten Year Statement indicates a demand requirement in a reasonable peak demand scenario, which the offer of Incremental Capacity could fulfil;

(b) whether Yearly IP Entry Capacity at the relevant IP is sold out for the first Gas Year in which Incremental Capacity could be offered for the first time and the subsequent 3 Gas Years; and

(c) whether Conditional Demand Indications requesting Incremental Capacity for a sustained number of Gas Years have been received and all other economically efficient means of maximising the available Technical Capacity at an entry IP have been exhausted.

3.1.12 The Market Demand Assessment Report shall include:

(a) the aggregated level of demand, including the direction and duration of such demand, for Incremental Capacity at an IP contained in NBDIs received by the deadline referred to in Section 3.1.6(b);

(b) the aggregated level of demand, including the direction and duration of such demand, for Incremental Capacity at an IP contained in Late NBDIs submitted for the current Incremental Capacity Process, which the Transporter has decided to include in the current Incremental Capacity Process;

(c) the aggregated level of demand, including the direction and duration of such demand, for Incremental Capacity at an IP contained in Late NBDIs submitted for previous Incremental Capacity Process(es) which were not considered within the previous Incremental Capacity Process(es);

(d) the aggregated level of demand for Incremental Capacity at an IP, including the direction and duration of such demand, which will be considered in the current Incremental Capacity Process;

(e) the types and, where available, the aggregated level of any Conditional Demand Indications received;

(f) whether or not an **“Incremental Capacity Project”** is to be initiated;

(g) where an Incremental Capacity Project is to be initiated in respect of an IP:

(i) whether technical studies will be conducted and if so, the level of demand, including the direction and duration of such demand, to be assessed;

(ii) provisional timelines for the completion of any technical studies and for the Incremental Capacity Project (including the Draft Project Proposal Consultation).

Responses to NBDIs

3.1.13 The Transporter shall respond to:

(a) Shippers who submitted an NBDI no later than 8 weeks after the deadline for submission of NBDIs; and

(b) Shippers who submitted a Late NBDI no later than 8 weeks after receipt.

3.1.14 The Transporter’s response to Shippers, pursuant to Section 3.1.13, shall include at least the following information:

(a) whether the demand indicated can be considered by the Transporter in the current Incremental Capacity Process;

(b) whether sufficient demand has been indicated overall for the Transporter to consider the initiation of an Incremental Capacity Project;

(c) in the case of a Late NBDI:

(i) whether or not the Transporter will consider the demand in the current Incremental Capacity Process;

- (ii) where applicable, the reasons for not including such demand in the current Incremental Capacity Process;
- (iii) where applicable, in which future Incremental Capacity Process the Late NBDI will be considered.

3.1.15 The Market Demand Assessment Report shall be published by the Transporter on its Website no later than 16 weeks after the start of the Annual Yearly Auctions.

3.2 Design

The design phase of the Incremental Capacity Process starts the day after publication of the Market Demand Assessment, if demand is indicated. It provides for a 12-week period (in an odd-numbered year) for the TSO to undertake technical studies, as needed.

At the end of the 12-weeks, the TSO must (jointly with the Adjacent TSO, where applicable) publish a project proposal for consultation, for a period of 1 to 2 months. This proposal will contain all the details of the project, as well as the details of the capacity allocation mechanism to be used, including all the relevant parameters of the Economic Test. It will also specify if there are any conditions which the TSO proposes to utilise, in relation to the allocation of capacity (such as the allocation of a minimum amount of capacity).

Procedural Steps to follow - Design Phase, Technical Studies, Initial Design and Consultation

- 3.2.1 Where the Transporter initiates an Incremental Capacity Project, in accordance with a Market Demand Assessment Report, the Design Phase shall start the day after publication of the Market Demand Assessment Report.
- 3.2.2 The Transporter shall, jointly with the Adjacent TSO where relevant, conduct technical studies as required to design the **“Incremental Capacity Project Solution”**, and confirm the amount of Incremental Capacity which may be offered.
- 3.2.3 The Transporter shall, jointly with the Adjacent TSO where relevant, prepare a consultation on a draft project proposal (**“Draft Project Proposal Consultation”**) for publication no later than 12 weeks after the start of the Design Phase. The Draft Project Proposal Consultation shall cover at least the following elements:
 - (a) a description of the Incremental Capacity Project, including a cost estimate;
 - (b) the amount of Incremental Capacity which will be offered to Shippers in the **“ICAM”** and the amount of Incremental Capacity which must be set aside to be offered in Annual Quarterly IP Capacity Auctions in accordance with Section 3.4.4;
 - (c) details of the ICAM which will be utilised to offer the Incremental Capacity including:
 - (i) the applicable general terms and conditions for participation;
 - (ii) any collateral which will be required to be provided by a Shipper;
 - (iii) how possible delays in the delivery of the Incremental Capacity Project Solution will be addressed contractually;
 - (d) any further Late NBDIs received since the preparation of the Market Demand Assessment Report;

- (e) whether the Incremental Capacity is likely to result in a sustained decrease in the utilisation of other non-depreciated gas infrastructure in Gas Networks Ireland's Transmission System, or along Adjacent TSO systems;
- (f) the estimated "**f-factor**";
- (g) the Capacity Charge for each Gas Year for which Incremental Capacity is to be offered;
- (h) any "**Potential Premium**";
- (i) the estimated total increase in allowed revenue associated with the Incremental Capacity;
- (j) where applicable, the parameters of the Joint Economic Test and any other relevant details associated with its application;
- (k) any other details that the Transporter considers to be relevant; and
- (l) the deadline for responses to the Draft Project Proposal Consultation, which shall be a minimum of 1 month and no longer than 2 months after the date of publication.

3.3 Approval

Following the end of the consultation, the TSO (jointly with the Adjacent TSO, where applicable) must prepare a proposal for approval by the Commission for Energy Regulation. The timescales for this period are not defined in the CAM Amendment, but the TSO anticipates that this would typically be three months, or potentially longer if the Adjacent TSO required more time. The proposal must then be submitted for approval and published on the TSO's website.

The Commission for Energy Regulation would then have (according to the Amended CAM Code) a period of up to 6 months, in which to consider the project and consult with neighbouring NRAs (National Regulatory Authorities) as appropriate. The CAM Amendment (Article 28) contains further provisions about how this should be carried out, which are not relevant to the procedural steps outlined below, but they also provide for NRAs to refer a decision to ACER, where it cannot be jointly agreed upon; in which case the process may take longer than 6 months. The decision would be published by the Regulator.

Once the Regulator has notified the TSO of its decision, if approval is granted the TSO must publish the relevant information from the proposal (essentially the details of the proposal as approved in the Approved Project Proposal), along with details of any contracts to be offered with the capacity. Individual contracts may be appropriate to set out the provisions for credit, duration, and price, as well as other details concerning the provision of Incremental Capacity and the associated binding commitment from Shippers.

Procedural Steps to follow - Project Approval

- 3.3.1 Following the Draft Project Proposal Consultation in Section 3.2, the Transporter shall, jointly with the Adjacent TSO where relevant, prepare an Incremental Capacity Project Proposal taking into account responses to the consultation.
- 3.3.2 An “**Incremental Capacity Project Proposal**” shall include:
- (a) the amount of Incremental Capacity to be offered;
 - (b) details of the ICAM, which will be utilised to offer and allocate the Incremental Capacity including:
 - (i) the applicable general terms and conditions for participation;
 - (ii) any collateral which will be required to be provided by a Shipper;
 - (iii) how possible delays in the delivery of the Incremental Capacity Project Solution will be addressed contractually;
 - (iv) the reasons for using the ICAM;
 - (v) the conditions approved by the Transporter for the ICAM;
 - (c) timelines for the delivery of the Incremental Capacity Project Solution, including any changes since the Draft Project Proposal Consultation, measures to prevent delays and measures to minimise the impact of delays;
 - (d) the parameters of the Economic Test;
 - (e) whether a duration of greater than 15 years may be required to be offered in order for the Economic Test to be passed.
- 3.3.3 Within 3 months of the deadline for responses to the Draft Project Proposal Consultation, or such longer period as may be required for the purposes of co-ordination with the Adjacent TSO, the Transporter shall submit the Incremental Capacity Project Proposal to the Regulatory Authority for approval, and publish such Incremental Capacity Project Proposal on its Website.
- 3.3.4 Following receipt of the approval of the Regulator, the Transporter shall publish:
- (a) details of the Incremental Capacity Project Proposal as approved by the Authority, including any amendments requested by the Authority and including the information specified in Section 3.3.2 (“**Approved Project Proposal**”);
 - (b) details of any contracts which may be offered in relation to the Incremental Capacity.
- 3.3.5 Where the Authority does not approve an Incremental Capacity Project Proposal, the Transporter shall publish the relevant information as soon as reasonably practicable, and the Incremental Capacity Project shall be terminated.

3.4 Allocation

Assuming Regulatory approval is received, the Transporter would proceed with the process to allocate Incremental Capacity. The details of this process would have been set out in the Draft Project Proposal Consultation and published in the Approved Project Proposal. The process allows for Shippers to submit Binding Bids which, provided the Economic Test is passed, will result in an allocation of Incremental Capacity by the TSO and a binding obligation on the Shipper to pay for it.

The CAM Amendment envisages auctions as being the primary mechanism for offering Incremental Capacity for sale. It also provides for an “**Alternative Allocation Mechanism**” to be designed by the TSO, in case there is a need to apply certain conditions (such as allowing bookings of capacity for multiple years, providing for the allocation of a certain or minimum amount of capacity, and bookings related to bookings at other IPs).

It is not possible to select the appropriate mechanism in advance, but the TSO assumes that, given the nature and costs of infrastructure investment, it is unlikely that sufficient binding commitment could be achieved via an auction mechanism (which auctions each year independently) and that in most circumstances, it will be appropriate to apply certain conditions to the allocation mechanism. Therefore, **the TSO anticipates that it is much more likely that an Alternative Allocation Mechanism would be utilised**. Since the choice cannot be made in advance, the procedural steps below refer to this allocation process as an ICAM (Incremental Capacity Allocation Mechanism).

In any event, the details of the mechanism would be provided in the consultation and approved by the Regulator before being used, at this stage in the process. The procedural steps outlined in 3.4 therefore simply provide the framework for the use of an allocation mechanism and the nature of possible ‘conditions’ which are contemplated by the CAM Amendment.

Procedural Steps 3.4.3-3.4.4 describe a further requirement of the CAM Amendment, which is that a proportion of the Incremental Capacity must be set aside from the allocation mechanism to be made available in the shorter term. The precise amount of capacity to be set aside must be part of the Draft Project Proposal Consultation, which is submitted for approval and hence is to be finally determined by the Commission for Energy Regulation. It may depend for example on the nature of any conditions being applied in the ICAM.

Procedural Steps to follow - Allocation Mechanism

- 3.4.1 Subject to a positive outcome of the Economic Test, Incremental Capacity shall be allocated to Shippers in accordance with an ICAM, which shall:
- (a) provide Shippers the opportunity to submit “**Binding Conditional Bids**” and/or “**Binding Bids**” for allocations of Incremental Capacity;
 - (b) be operated in accordance with the details set out in the Incremental Capacity Project Proposal and this Section 3.4;
 - (c) be co-ordinated with the Adjacent TSO, where relevant;
 - (d) be approved by the Regulator.
- 3.4.2 The ICAM shall cover a maximum of 15 years after the start of operational use of the Incremental Capacity, except where the Authority approves its application for an additional 5 years, in order to allow the Economic Test to be passed.

Set Aside Rule

- 3.4.3 An amount of at least 10% and up to 20% of the Incremental Capacity must be set aside from the ICAM and offered no earlier than the Annual Quarterly IP Capacity Auction.
- 3.4.4 The amount of Incremental Capacity to be set aside shall be specified by the Transporter in the Draft Project Proposal Consultation, consulted upon in accordance with Section 3.2 and subject to approval by the Authority in accordance with Section 3.3.

Binding Conditional Bids

- 3.4.5 The ICAM may allow for Shippers to submit Binding Conditional Bids for Incremental Capacity, which may be subject to conditions including but not limited to one or more of the following:
- (a) commitments linking to commitments at another IP;
 - (b) commitments across a number of Gas Years;
 - (c) commitments which are conditional on the allocation of a specific or minimum amount of Incremental Capacity;
- and where such conditions apply, they shall be specified in the Approved Project Proposal.
- 3.4.6 An ICAM may allow for prioritisation of, inter alia, booking duration or bids for higher amounts of capacity for a yearly standard product, subject to approval by the Regulator.

3.5 Economic Test

Where investment by the TSO is approved by the Commission for Energy Regulation, a certain increase in the Transporter’s allowed revenues would also be permitted to reflect the investment. The amount of this increase would be estimated by the TSO in the Draft Project Proposal Consultation, and subsequently the approved amount would be included in the details of the Approved Project Proposal.

The economic test is essentially to determine whether the present value of binding bids for capacity received in the ICAM is sufficient to meet a specified proportion of the present value

of the increase in the allowed revenue. The proportion is set by the f-factor. An f-factor of 100% would mean that all the costs must be met by Shippers' binding bids. An f-factor of 50% would mean that 50% of the value of the allowed revenue would have to be met by binding bids, but the other 50% would be part of the TSO's cost base, and hence would be met by all other Shippers, through a general increase in tariffs.

The CAM Amendment also anticipates that the f-factor would be proposed by the TSO, consulted upon and ultimately be approved by the Commission for Energy Regulation. The procedural steps outlined below therefore provide for this process, with the proposed f-factor for the specific project being included in the Draft Project Proposal Consultation. However, the TSO considers the setting of an appropriate f-factor to be a matter of policy for the Commission for Energy Regulation, and anticipates that the Regulator may wish to provide a general view on this, prior to the TSO including any estimate in a Draft Project Proposal. The TSO also anticipates that the Regulator will approve the financial model using the Economic Test, and the applicable rate of return.

The CAM Amendment anticipates that Incremental Capacity will general be bundled capacity, and, as such, specifies rules for the joint application of the Economic Test. These rules allow for TSOs to complete their Economic Tests independently and then apply a joint test, with a view to enabling projects to proceed where the test is met on one side of an IP, but not the other. In such circumstances, they also allow for, subject to NRA approval on both sides, redistribution of revenues between TSOs. This is not a mandatory requirement, and would have to be the subject of project specific discussions between the TSOs and the NRAs. Since this is likely to be complex to achieve in practice, it is not possible to set out the details of how such a joint application of the Economic Test would operate in the procedural steps detailed. Therefore, the procedural steps below contain a simple paragraph to acknowledge the possibility of a Joint Economic Test; the details of which would have to be provided in the Draft Project Proposal Consultation, if it were ever to be utilised.

Procedural Steps to follow – Economic Test	
3.5.1	Once Binding Conditional Bids and/or Binding Bids have been received by the Transporter, it shall apply the Economic Test, in accordance with this Section 3.5.
3.5.2	The Economic Test shall consist of the following parameters: <ul style="list-style-type: none"> (a) the present value of Binding Conditional Bids (or where applicable, Binding Bids), calculated as the sum of the respective Capacity Charges for the relevant Gas Years and a Potential Premium multiplied by the amount of Incremental Capacity for which Binding Conditional Bids (or where applicable, Binding Bids) have been received ("Total Bid Value"); (b) the present value of the estimated increase in the allowed revenue of the Transporter associated with the Incremental Capacity being offered, as approved by the Regulator; (c) the f-factor.
3.5.3	The " Revenue Contribution Required " shall be the f-factor multiplied by the value of the parameter in Section 3.5.2(b).
3.5.4	The outcome of the Economic Test shall be: <ul style="list-style-type: none"> (a) positive where the Total Bid Value is at least equal to the Revenue Contribution Required;

(b) negative where the Total Bid Value is less than the Revenue Contribution Required.

3.5.5 Where the outcome of the Economic Test is positive, the Incremental Capacity Project shall be progressed by the Transporter to enable delivery of the Incremental Capacity Project Solution, in accordance with the timescales set out in the Approved Project Proposal.

3.5.6 Where the outcome of the Economic Test is negative, the Incremental Capacity Project shall be terminated.

3.5.7 Shippers shall be notified of the outcome of the Economic Test as soon as reasonably practicable, following the ICAM and in any event before the start of the next Incremental Capacity Process.

Joint Application of the Economic Test

3.5.8 Where relevant, the Transporter may jointly apply the Economic Test in conjunction with the Adjacent TSO (a “**Joint Economic Test**”). Where this applies, the process steps for the application, and the parameters of the Joint Economic Test shall be included in the Draft Project Proposal Consultation and subject to approval by the Regulator.

3.6 Summary Timelines

According to the CAM NC Amendment, the first Market Demand Assessment for Incremental Capacity shall be conducted in 2017. No later than eight weeks after the entry into force of the CAM NC Amendment, Non-Binding Demand Indications for Incremental Capacity shall be submitted by network users to the TSO. Based on the demand expressed by the network users, the TSO will produce a Market Demand Assessment Report, which will evaluate the prospective need for Incremental Capacity and will state whether an Incremental Capacity Project will be initiated. The Market Demand Assessment Report will be published on the relevant TSO’s websites, no later than 16 weeks (expected in July 2017) after entry into force of the CAM NC Amendment.

An Incremental Capacity Process is to be run in at least each odd-numbered year, and may also be run, on an ad-hoc basis, in even-numbered years.

- Where the standard process is run (in odd-numbered years), there are prescribed timescales in the Amended CAM Code, which should be adhered to.
- Where the process is run in an even-numbered year, the TSO should follow the same process steps, but may set the timescales differently. However, it is mandatory for the ad-hoc process to be completed before the start of the next Annual Yearly Auctions. This could, therefore, potentially provide for the process to be run faster (or indeed slower) than the prescribed timescales for odd-numbered years.