



Gas  
Networks  
Ireland

# VRF Workshop

22 February 2017

Cork

# Agenda

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1. Introduction and EU Context
2. Review of Existing VRF Product
  - Processes
  - Usage to date
3. Industry Views on VRF Tariffing Structure
4. Discussion
5. Next Steps



# 1. Introduction and EU Context

# Introduction and EU Context

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- CER Decision Paper (CER/11/190) set the current basis for charging for the VRF service has gone through a number of iterations resulting in the 'Enhanced Service' which began in April 2016.
  - VRF tariff was to reflect the incremental cost of offering the service recovered via a registration fee.
- The VRF service has gone through a number of iterations resulting in the 'Enhanced Service' which began in April.

# Introduction and EU Context – *contd.*

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- The EU Network Code on Tariff (due to be enacted in March 2017) requires that the reserve price for interruptible capacity shall be discounted, ex-ante, in proportion to the probability of interruption ( see Article 16).
- If an ex-ante discount is not applied, an ex-post compensation can be paid, which is equal to 3 times the reserve price of the equivalent firm product.
- This Workshop is being held to review the continued appropriateness of the VRF tariff, as a result of the above requirements and other issues raised by industry to the Regulator.



## 2. Review of Existing VRF Product

# Review of Existing VRF Product

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- Single Day Ahead Interruptible Capacity Auction on PRISMA
  - Reserve Price = 0
- VRF (Re)Nominations may be submitted by shippers on GTMS in the same windows as Forward Flow (FF) (re)nominations:
  - Nomination window: D-31 – 13:00 D-1
  - Renomination window: 15:00 D-1 – 02:00 D
- An interruption check is performed in each Moffat Matching cycle.
- In event of interruption, a VRF shipper's new CQ will be calculated as follows:

$$- \text{Deemed Flow} + \left( \left( \frac{\text{URTBD of Shippers VRF CQ}}{\text{Agg VRF URTBD for all Shippers}} \right) * \text{Agg Remaining VRF} \right)$$

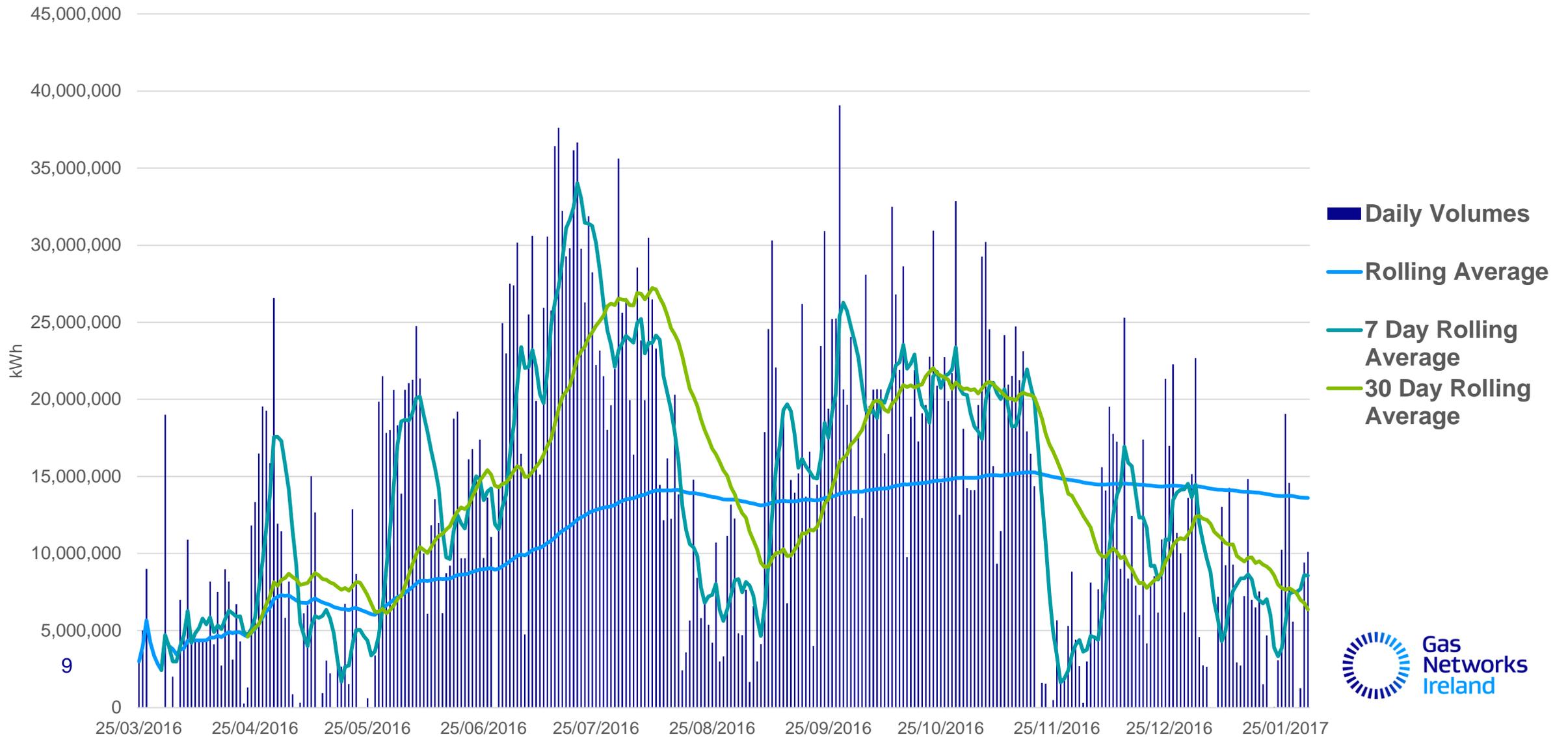
\*URTBD = Units Remaining to Be Delivered

# Review of Existing VRF Product

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- Interruptions do occur as outlined on the previous slide, if Reverse Flow Nominations exceed Forward Flow nominations.
- Shippers are notified hourly via GTMS of available VRF capacity.
- As forward flow nominations increase, shippers who were previously interrupted can renominate upwards.

# VRF Usage to date: > 4,300 GWh





# 3. Industry Views on VRF Tariffing Structure

# Industry Views on VRF Tariffing Structure

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- At the January 2017 CMF Meeting, the Regulator requested that industry circulate its views on VRF.
  - Specifically, the Regulator sought views on potentially introducing a VRF tariff, and any changes to VRF Business Rules that may be perceived to be required as a result.

Industry responses have been received from:

- IOOA
- ESB (GWM)
- EAI
- SSE

# Industry Views on VRF Tariffing Structure

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## **Response from IOOA**

- IOOA supports the current tariffing structure, of an annual registration fee (with neither capacity charges nor commodity charges), and the continuation of the existing regime, which is perceived to pay the incremental costs of providing the service.
- IOOA views shrinkage as a commodity charge and consider levying shrinkage charges on VRF volumes to be unfair and inconsistent with the 2011 Decision (CER/11/190). The IOOA therefore believes that the removal of this shrinkage charges should be considered.
- IOOA believes that any review of the VRF tariffing regime should reflect the requirements of the EU Tariff NC, (expected to come into force in late March 2017). This will require that all transportation tariffs be reviewed, with a view to having tariffs consistent with the Code in place, with effect from 1<sup>st</sup> October 2019. IOOA members believe that no changes to VRF charges are justifiable ahead of this date.
- Under the EU Tariff NC, the probability of interruption must be considered when setting transportation charges, and the Transportation Network Monthly Reports show that VRF flows were interrupted on 44% of the days that the service was nominated for use during November and December 2016. IOOA believes that such a high probability of interruption warrants a discount of the order of 100%.
- IOOA note that, based on Monthly Reports, the level of forward flows during the same two months remained consistently high, even on days when reverse flow was interrupted. This is not typical of a well-functioning gas market and the IOOA welcomes any regulatory initiatives intended to identify and address such market failings.

# Industry Views on VRF Tariffing Structure

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## **Response from ESB** (Slide 1 of 4)

- Given an enhanced VRF product is now fully functional and in almost daily use, ESB supports the assertion that a tariff is now necessary for VRF. This is consistent with the CER position in the Decision Paper (CER/11/190), which outlined the tariff arrangement for VRF which consisted of a registration fee, a commodity charge and a capacity charge.
  - Apart from the registration fee (currently €7,300), the capacity and commodity charge were set at €0/MWh with a commitment from the CER that these tariffs were for an interim period and *“further analysis will be undertaken by the CER in the future to determine the appropriateness of this tariff arrangement in the context of future developments to the Irish gas market and in particular the pending Decision on the regulatory treatment of the BGE interconnectors”* (pg. 12, CER/11/190).
  - At the time of setting the VRF charges for 2015/16 the CER stated that *“this methodology will continue to apply to shippers who register for use of the service until such time as the enhanced VRF is made available”*.
- An enhanced within-day VRF has been utilised extensively since April 2016.
  - In effect, large amounts of gas produced at Corrib are being virtually exported to NBP, with no charges attached to this service in ROI except for the minimal registration fee.
  - This allows producers at Corrib access to NBP and the use of GNI’s compressors without any significant tariffs attached. VRF charges should recoup both the costs and value of this service.
  - GNI’s NDP outlined the challenges associated with reduced flows through Moffat Interconnector, and the requirement for investment in more flexible compressor/turbine technology.

# Industry Views on VRF Tariffing Structure

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## **Response from ESB** *(Slide 2 of 4)*

- ESB notes that with the current tariffing structure, VRF users are not paying for this increased investment requirement caused by varying and decreased flows on the IC (which is instead being picked up by other Shippers, already paying significant capacity and commodity charges).
- There is a large body of work being undertaken by GNI in relation to a TP at IBP. Liquidity at IBP will be a key determinant in the success or failure of this platform and the ESB comments that current volumes of gas being virtually exported would make a significant impact to the existence (or not) of liquidity at IBP.
- INFR rules currently restrict Shippers' nominations on a within day basis. National Grid are reviewing abolishing INFR, but GNI indicate that INFR is needed to facilitate VRF. In effect, Shippers forward flowing at Moffat have restrictions applied, to facilitate a service that the ESB considers to be of no benefit to the Shipper flowing from Moffat into ROI (and in fact impedes their nom. actions).
  - ESB states that the VRF service provides no monetary benefit to the system itself, and is a flawed set-up; arguing that these points are supporting factors for the introduction of VRF tariffs.

# Industry Views on VRF Tariffing Structure

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## Response from ESB (Slide 3 of 4)

- Possible tariffing **options proposed** by ESB includes:
  - (i) annual or (ii) daily capacity tariff, in conjunction with a commodity tariff to keep VRF tariffing consistent with the tariffs that other Shippers pay for utilisation of the system, or,
  - (iii) an arrangement where Shippers that are importing gas from Moffat are compensated for facilitating VRF, i.e. on a given day if 20% of the forward flow on the IC is virtually exported, the Shippers that are importing from Moffat on the day receive payment from VRF Shippers for facilitating VRF – this payment could be based on the Moffat charges which the forward flow Shipper pays.
- Given interruptions occur for VRF, ESB would suggest that the recent procedure, where a rebate is provided due to GNI interruption at entry points, could be replicated here (as per A071).
  - It is suggest that if a Shipper is interrupted when it wants to VRF, a rebate of any charges would apply.

# Industry Views on VRF Tariffing Structure

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## **Response from ESB** (Slide 4 of 4)

### **Principles for VRF Tariff Review**

#### 1. Regulatory Certainty

CER/11/190 *It must be highlighted that the Virtual Reverse Flow Tariff Decision set out in this paper will apply for an interim period only. Further analysis will be undertaken by the CER in the future to determine the appropriateness of this tariff arrangement in the context of future developments to the Irish gas market and in particular the pending Decision on the regulatory treatment of the BGE interconnectors.*

#### 2. Equal treatment of all users (no cross subsidisation)

#### 3. Respect technical limitations of I/Cs to ensure no technical breaches

#### 4. Polluters pay principle for charging

#### 5. All ROI gas customer benefits from increased system usage

#### 6. IBP liquidity consideration

### **Timelines**

- Price control due to be published in April; VRF tariffing methodology needs to be finalised by mid-March to allow price control consultation to reflect VRF tariffing principles.

### **Considerations**

- INFR restrictions on forward flow customers mean VRF has consequences for Shippers not using VRF but forward flowing at Moffat.

- 16 VRF product is interruptible.

# Industry Views on VRF Tariffing Structure

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## **Response from EAI**

- The CER has committed to introducing a tariff for a fully functional VRF product; the product is now fully functional. Consequently, the EAI believes that a VRF tariff should be implemented, as a matter of priority.
  - Having considered the characteristics of the VRF product and the interdependencies of the product with the forward flow product, the EAI considers the relevant starting point for a VRF tariff to be the forward flow tariff (capacity/ commodity; with seasonal multipliers applied to products).
  - EAI welcomes further discussion on this, to explore relevant similarities/ differences between the products, as well as the effect of the Tariff NC.
- In respect of the tariff, EAI recognises that the risk of interruption should be reflected in the cost of the product, but at present, the EAI does not offer a firm proposal on how to do so, other than noting that there would appear to be a range of options from reflecting the risk in the VRF tariff, to some sort of rebate or refund system.
  - The EAI notes that the effect of the Tariff NC must also factor in this discussion.
- At this point, EAI members consider it to be too early to identify specific VRF business rules changes that may be required. That said, EAI remains committed to engaging in any future business rules change processes, when the general approach to VRF tariffing has been decided upon or some guidance has been provided by the CER.
- EAI has identified this issue as a priority for the Gas Working Group for 2017.

# Industry Views on VRF Tariffing Structure

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## **Response from SSE** *(Slide 1 of 2)*

- SSE's view is that a tariff should be introduced for VRF.
  - SSE state that the current arrangement was introduced as an interim measure in advance of an enhanced product being available, and that this is now available.
- SSE's understanding is that the EU has restrictions on how VRF can be tariffed, effectively:
  1. at marginal cost, which is the current set up;
  2. as interruptible capacity with a discount based on probability of interruption.
- SSE's view is that the second approach is best, given that shippers will be paying for capacity regardless.
  - SSE believes that the product should be linked to utilisation, allowing shippers an option to buy the Within Day product, rather than being locked into a capacity strip.
  - One of the key challenges SSE sees is how to factor in the risk of interruption to the tariff. SSE believes that there needs to be a balance between: 1) maintaining the operational value of the product in balancing the system; and, 2) reflecting any costs to the system of VRF appropriately in the tariff.

# Industry Views on VRF Tariffing Structure

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## Response from SSE (Slide 2 of 2)

### Discussion points raised by SSE

- Are seasonal multipliers appropriate, given VRF is in effect acting as a balancing tool?
  - There is a risk that the pricing of the product could become cyclical as usage would drop in winter, which would decrease probability of interruption, which would increase price.
  - SSE considers it to be useful to discuss options to manage this, to ensure the operational value of the service remains intact and the product is usable throughout the year.
- Given that the interruption probability needs to be addressed in a transparent way, to allow users to make decisions, SSE states that it may be helpful to set the associated discount *ex-ante* for a tariff year. The intent being that it should make it easier to use.



# 4. Discussion



# 5. Next Steps



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Thank you for your participation