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Dear Stephen, Dear Avian,

Business Rules for Industry Consultation: Gas Day Transition, and Capacity Allocation Mechanisms and Changes for Entry-Exit

Thank you for the opportunity to provide feedback on the two draft Business Rules documents named above.

We have no comments to make to the Gas Day Transition Business Rules document.

Please find below our response to the CAM and Entry-Exit Business Rules document, considering the specific consultation questions raised in Section 34 and other issues that we would like to raise.

i. The proposals for use of PRISMA

We understand that under the CAM Regulation (984/2013), capacity at IPs must be offered via a 'joint web-based booking platform' and that PRISMA has been selected by TSOs across Europe as that joint booking platform. The processes and auction methodologies have therefore already been defined by PRISMA and the European TSOs to comply with the scope of the Regulation. In general, the Business Rules connected to the implementation of PRISMA auctions appear to conform to PRISMA's definitions. Additional graphics and diagrams would be beneficial to demonstrate the auction timings in particular.

We question the suggested use of 'linked auctions', with a link being made between simultaneous auctions of GB-NI and GB-RoI capacity (at 3.1.7 and 8.11).

Firstly, as stated at 8.11.2, such a 'linked auction' would only occur if the capacity offered on the GB side were less than the capacity offered on the NI and RoI sides (e.g. there would be insufficient matching Exit capacity at GB for NI and RoI Entry capacity in aggregate, and therefore the NI and RoI bidders would be competing with one another for units of GB Exit capacity above the level at which Exit and Entry matches). This eventuality is already stated in the Business Rules to be unlikely (see 3.1.5: "*Since there is significantly more technical capacity available upstream than downstream at Moffat*"). We therefore question the inclusion of this measure as an over-complication.

Secondly, to our knowledge no provision has been made in the equivalent RoI Business Rules and Code Modifications thus far to allow for a 'linked auction'. A unilateral 'linked auction' does not appear possible. We would welcome more information on the planned coordination between GB, RoI and NI TSOs and NRAs on this matter, especially in the context of IP clustering which was raised by CER/Gaslink during 2014.

Thirdly, the prospect of a 'linked auction' between three countries raises concerns. The 'linked auction' process sees the non-competing capacity (i.e. the matching level of Entry and Exit capacity) auctioned first, with the price linked between the IP auctions. Once the auction for the matching capacity has cleared, the auction for competing capacity continues separately until a clearing price is reached for this remaining capacity.

It is clear how such a process could work between two markets with several IPs between them (e.g. Germany and the Netherlands) and result in more efficient pricing and allocation of resources between the various IPs at a border. However, in the case of GB/RoI/NI auctions, we are looking at imports into two separate systems with effectively no direct physical connection between them (i.e. unlike in the Germany-Netherlands example listed above, there is not several IPs). Regulated prices calculated by each NRA will set the reserve price for the auction at each side of the IP. Therefore linkage between auctions could mean that e.g. NI Shippers would have to pay the RoI regulated Entry price, which is not relevant to NI Shippers or end-users.

Security of supply could also become an issue. Shippers importing to one market may be able to bid far higher premia than bidders in the other market due to downstream commercial or regulatory conditions, meaning that the second market consistently has insufficient import capacity. In these circumstances, coordination between TSOs to manage an IP cluster would appear to be more efficient for the end-user.

ii. The IP capacity products on offer

The IP capacity products conform to the PRISMA definitions and Regulation, and are as anticipated. We find the description of VRF Exit Capacity at 6.8.1 to be unclear and note the standard units for PRISMA use to be kWh/d.

iii. The arrangements for secondary trading of IP capacity

The arrangements for secondary trading of IP capacity are clear and we welcome their introduction.

iv. Whether or not Shippers would value a permanent arrangement in the Code for assignment of IP Entry Capacity, potentially including Quarterly IP Entry Capacity or whether a transitional arrangement for Yearly IP Capacity would be sufficient

An enduring arrangement for assignment of capacity would in our view be welcome in NI. This would provide more options to Shippers who are operating in a small market and do not want to become active further upstream (on the other side of the IP for bundling capacity), and in a market where trading prospects for gas are likely to be low.

It is regrettable that assignment was not provided as an option earlier in this process, as Shippers have already had to make plans to prepare for CAM implementation based on the information available to them at the time.

The rules for unassignment, reassignment, secondary trading of assigned capacity etc. would need further clarification in the Code if this measure is to be implemented.

v. The proposals to facilitate voluntary bundling of IP Entry Capacity

The proposals are clear and appear similar to those of adjacent TSOs. We suggest that the time limit of 10 business days to accept the request and notify the adjacent TSO is too long for what should be a pro forma process based on electronic communications.

We welcome that bundling will be voluntary and that there will be no compulsion to bundle currently held unbundled capacity for the duration of the capacity agreements.

vi. The proposals to remove the Daily Capacity product at Exit

We do not object to the removal of the Daily Capacity product at Exit. We note that the long lead time for purchase of this product made it impractical and not in the spirit of the intended EU definition of a short-term product.

vii. The proposal to provide a firm Exit Capacity product by over-nomination

We responded to this proposal in our submission to UR on the introduction of Entry charges, which we submitted in November 2014. We reiterate our response to the previous consultation here: this proposal is indicating that capacity that was previously interruptible is now considered firm, or at least has a probability of interruption of zero. The Business Rules state that "*an appropriate rate*" will be charged (17.5.1) to the Shipper for over-nomination. UR's consultation indicated its intention that the charge for this capacity usage in excess of booked capacity will be the 'reserve price for daily capacity', plus the commodity charge (as opposed to solely the commodity charge, which is currently the fee for interruptible nominations/allocations). At the time of writing this is still unresolved.

We would like to understand how exit capacity that was previously only interruptible can now all be deemed as effectively firm. The explanation at 6.9 of UR's consultation did not appear to justify this. It is not clear what has changed and why Shippers should pay additional charges to those paid currently for this service.

We would also like to be made aware of any individual exit points where the risk of interruption is not as 'low' as others, and whether any alternative measures will be required. If capacity is in fact not firm – even if the risk of interruption is 'low' – this should be reflected in the charge as stated and applied across all exit points.

At 6.9 of UR's consultation, it was implied that the introduction of short-term products at entry and expected changes in bookings was the reason to change the exit arrangements. We believe that the automatic allocation of enduring entry capacity to match enduring exit capacity is likely to mitigate this, initially at least. Therefore, using the reasoning in 6.9 of UR's consultation, any change in exit arrangements should not be required until any change in entry booking behaviour can be observed.

Returning to the NI TSOs Business Rules on Changes for Entry-Exit, we see that the TSOs propose to introduce a ratchet mechanism on top of whatever "*appropriate rate*" will be charged for over-nomination. Our understanding of the proposed ratchet is that it would increase the Shipper's exit capacity booking from the start of gas year retrospectively to the maximum level of his over-nomination.

The concept of a double penalty (overrun plus ratchet) appears overly punitive and we do not support its introduction. We would highlight the uncertainties in the power generation sector in particular connected to unpredictable and intermittent renewable electricity production, and the increasing requirement to stabilise the system that is being placed at short notice on gas-fired generators. Equitable provision of short-term capacity products for gas is required to benefit electricity as well as gas consumers.

In summary, we believe that insufficient information is provided currently, in both UR's prior consultation and the Business Rules, to allow us to comment fully on this proposal and welcome a meeting to get clarification.

viii. The proposals for a Shipper Forecast Information Request form to collect annual Shipper forecasts

We do not object to the proposals for a Shipper Forecast Information Request form insofar as it complies with EU and local legislation, and respects Shipper confidentiality. We note that the production of a Ten Year Statement by the NI TSOs is required under the EU Network Codes, connected to gaining understanding of requirements for network development and security of supply. Requirements to provide information on the type and duration of capacity products that a Shipper estimates he will purchase and use in the coming years appear to go beyond that aim. We also note that only forward looking *estimates* can be provided, and variability between forecast and actual bookings may be significant, especially further into the future.

ix. The revisions to the arrangements for accession and registration

In general, the revisions are acceptable. We note that certain conditions are required for IP and Exit registration (e.g. an EIC code, PRISMA registration) and it is not clear if these are also requirements of the approaching auto-registration process due to commence in January 2015. The TSOs should be aware that Shippers did not expect to have to meet these conditions at the current stage.

Other comments

EIC codes
It is suggested in the Business Rules that the TSOs may decide to use EIC codes as identifiers at Exit (see 3.5.2). No clarity is provided on this point. We are aware that there are different types of EIC codes and they may be issued locally (for local market use) or internationally (for cross border use). Examples of this can be seen in Germany, where players may have several EIC codes for use in the German market, specific to the company's functions as e.g. balancing zone responsible party or generator, and a separate EIC code for international operations, using the company's central trading entity as the holder of its Shipper licences in various markets across Europe. Therefore, an international EIC would apply at the IP and be used for booking capacity, while a local EIC code would be used at Exit by a power generator for its interactions with the local gas and electricity TSOs.

We would find clarification from the NI TSOs on the point at 3.5.2 of the Business Rules and the application of EIC codes very useful.

Set aside
The intention for Quarterly product set aside, which is part of the Regulation at Article 8, 7(b), is not made clear in Section 6.6 of the Business Rules.

We would be pleased to offer clarification or discussion of any of the comments above.

Yours truly

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