IME3 Compliance

for 2015

Allocations

Business Rules for Industry Consultation

Version 1.0

3rd November 2015

Contents

1. Introduction

1.1. This document sets out the Business Rules for Allocations of gas in the NI Regime, from 1st October 2015.

1.2. It is necessary for Northern Ireland to comply with EU Regulations, specifically the IME3 Regulation EC 715/2009, and the Network Codes which have been/are being implemented as a consequence of that Regulation. These include the Balancing Code (BAL) (EU 312/2014), the Capacity Allocation Mechanisms (CAM) Code (EU 984/2013) and the Interoperability Code (INT) (currently in Comitology).

1.3. One of the key proposals in the Interoperability Code is for an Operational Balancing Agreement (OBA) to be implemented at Interconnection Points (IPs). One of the main impacts of the OBA approach it that it allows for Shipper gas allocations to be 'held whole' to their nominations (i.e. Shippers 'get what they nominate').

1.4. The NI regime already has rules for Entry Point Allocations, which are provided via the Moffat Agent. To date no Shippers have booked or used capacity at the South North Entry Point, and therefore there are no specific rules or processes concerning the provision of allocations at that point.

1.5. The Interoperability Code is still at the Comitology stage and has yet to be finalised and the implementation date is not yet certain. However there is a high likelihood that it will be implemented by 1st October 2015 and effective from 1st April 2016 ,and that it will provide for the introduction of OBAs at IPs. National Grid and BGE(UK) have indicated their intention to introduce an OBA at Moffat for October/November 2015.

1.6. PTL and BGE(UK) are in discussions to implement any necessary contractual amendments between them to ensure that once the Moffat OBA between BGE(UK) and National Grid is in place and operational, PTL is able to use the allocation=nomination rule for the provision of IP Entry Allocations to its Shippers and has the necessary information to perform allocations for its Shippers in the event of breach of the OBA tolerances.

1.7. Should Shippers wish to use South North Entry Point, BGE(NI) would implement an OBA arrangement with Gaslink, and so the Allocation rules described here will be identical for both the NI Interconnection Points. They are written to be applicable for both IPs.

1.8. It is logical to align the implementation of the requirements of Interoperability Code with the introduction of CAM products and BAL/INT nominations requirements, therefore the NI TSOs (PTL, BGTL and BGE(NI)) intend to develop the NI IP Entry Allocations rules to be implemented at the same time as the provision of an OBA arrangement at Moffat, i.e. as of 1st October 2015.

1.9. The NI TSOs also need to provide for EU compliant VRF Exit Allocations at the IPs.

1.10. Other than simplifying the current VRF Allocations rules (which were designed to operate for NI's 'contract path' arrangements) the NI TSOs do not intend to make changes to the fundamental processes for exit allocations at the non-IP Exit Points.

1.11. These Business Rules describe how Shippers allocations will be determined and provided from 1st October 2015, provided that an OBA arrangement is implemented at Moffat. They will apply in relation to South North, if/when Shippers wish to use the IP. They also briefly describe the allocations rules which will apply to Trade Nominations, which are to be introduced to permit Shippers to trade at the NI Balancing Point, as a result of the Balancing Code.

1.12. These Rules will be developed into a Code Modification Proposal, and so will be effective, if approved, from the start date specified in that Code Modification Proposal, which is likely to be 1st October 2015.

2. Relevant Context

2.1. The following points are key elements of relevant context for these Business Rules:

a. From October 2015, the NI TSOs will be responsible for determining Shipper allocations.

b. Moffat Agent services will no longer be required for the purposes of allocations, and the NI TSOs have initiated discussions with the Moffat Agent as to its withdrawal from service from October 2015. A transition period is envisaged particularly for the nominations processes and there will be an overlapping period (the first 5 days of October 2015) where the Moffat Agent will provide allocations up to the end of the current close-out period which can run to D+5.

c. National Grid and BGE(UK) are in discussions over implementing an OBA as part of their Connected System Agreement/Interoperator Agreement at Moffat. The NI TSOs are unlikely to be directly party to the Moffat OBA terms in which case, PTL and BGE(UK) will implement arrangements to enable the operation of the allocation rules in this document.

d. Should Shippers wish to use the South North IP, BGE(NI) and Gaslink have indicated that they will implement OBA arrangements to apply at South North.

e. Under an OBA, the TSOs on either side of the relevant IP will hold 'steering differences' (the difference between the target quantity to be flowed on a day, and the actual quantity flowed) in an 'account' between themselves, within certain tolerance levels. The account would be corrected by the TSOs over time by adjusting the daily target quantity. This means it will no longer be necessary for Shippers on either side to be allocated all of the metered quantity at the point, and consequently, can be allocated the same quantity as their last confirmed quantity for the day.

f. Where the steering difference exceeds the agreed tolerance level, it may be necessary to revert to an allocation of the full metered quantity. However it may also be possible for the TSOs party to the OBA to agree between themselves to permit the variation outside tolerance, and maintain the allocation = nomination regime. It is expected that the tolerance levels and other elements of the OBA agreement will mean that there is a very low likelihood of the need for allocation of the metered quantity. Nonetheless the NI Codes will need to include rules for such occasions.

g. NI will be moving from a point-to-point model to an entry exit regime with effect from 1st October 2015. This removes the requirement for VRF to apply on the contract paths to the physical exit points, as it does at present. In addition, the current arrangement where Shippers daily imbalance is calculated separately for each contract path will be replaced by an aggregate daily calculation of a Shipper's imbalance across the whole NI system. Some minor amendments to the rules for Exit Allocations are required to reflect this, which are also described in these Business Rules.

h. The NI TSOs will be introducing arrangements to allow Shippers to make Trade Nominations, to trade gas between themselves at the Northern Irish Balancing Point (i.e. within the NI Network). The rules for Trade Nominations will be set out in the Nominations Business Rules. Allocations for Trade Nominations are covered in this document, as they will be taken into account in considering a Shippers Aggregate NI Allocation position.

i. Shippers will be able to buy day ahead and within day capacity via the PRISMA auctions, but since the NI TSOs do not propose to reject IP Entry Nominations exceeding capacity, it will be possible for Shippers to nominate (and consequently be allocated) in excess of their capacity. Whilst it is for the Utility Regulator to define how the charges within the postalised regime are calculated, the NI TSOs propose to introduce overrun charges where Shippers' IP Entry Allocations exceed their booked capacity. It is anticipated that the charges may be 8 x daily rate, to provide an incentive to book capacity. This multiplier for overrun charges is also used in GB and ROI.

3. New Terms

The following terms are used in this document and are provided here to aid understanding. Some are also provided in the Nominations Business Rules. The NI TSOs may use different defined terms when developing the Codes legal drafting.

'Confirmed Quantity' means the quantity of gas in respect of each Nomination or Renomination confirmed to a Shipper following the matching process;

'Confirmed Trade Quantity' means the Trade Notification Quantity in a confirmed Trade Nomination;

'NI Moffat Metered Quantity' means the NI share of the total Moffat Metered Quantity attributable to NI in respect of a Gas Flow Day;

'NI Moffat VRF IP Exit Aggregate Allocation' is the sum of VRF IP Exit Allocations of all the Shippers at Moffat IP;

'South North Metered Quantity' means the quantity metered as delivered at the South North IP Entry Point in respect of a Gas Flow Day;

'South North VRF IP Exit Aggregate Allocation' is the sum of VRF IP Exit Allocations of all the Shippers at South North IP.

4. Entry Allocation Rules at Interconnection Points

4.1. The '**Prevailing IP Entry Allocation Rule'** will be that, provided that the OBA tolerances levels have not been breached for a Gas Flow Day, Shippers Entry Allocations in respect of a Gas Flow Day D will be for the same quantities as their last Confirmed Quantities at that IP, for that Gas Flow Day.

4.2. If OBA tolerance levels are breached at an IP in respect of a Gas Flow Day, the '**Fallback IP Entry Allocation Rule**' will be that Shippers are allocated a pro-rata share of the Metered Quantity at the relevant IP Entry Point as follows;

a. at Moffat, the pro-rata share for a particular Shipper shall be the NI Moffat Metered Quantity plus the NI Moffat VRF IP Exit Aggregate Allocation multiplied by the ratio of the total of the Shipper's Confirmed Quantities (forward flow) to the total of the Confirmed Quantities (forward flow) for all Shippers; and

b. at South North, the pro-rata share for a particular Shipper shall be the South North Metered Quantity plus the South North VRF IP Exit Aggregate Allocation multiplied by the ratio of the total of the Shipper's Confirmed Quantities (forward flow) to the total of the Confirmed Quantities (forward flow) quantities for all Shippers.

4.3. Where the Fallback IP Entry Allocation Rule is to be applied at an IP, the NI TSOs will notify Shippers by D+5.

4.4. The rules will apply independently at each IP (i.e. where it is necessary to use the Fallback Entry Allocation Rule at an IP, it does not mean that it is necessary to use it at the other IP).

5. Trade Allocation Rules

5.1. The rule for allocations of gas against confirmed Trade Nominations will be that the quantity of gas allocated to each Shipper shall be the Confirmed Trade Quantity.

5.2. Where a pair of Shippers/Trading Parties have been allocated Confirmed Trade Quantities:

a. the Shipper/Trading Party which made the acquiring Trade Nomination will be allocated the Confirmed Trade Quantity as a 'Trade Buy Allocation';

and

b. the Shipper/Trading Party which made the disposing Trade Nomination will be allocated the Confirmed Trade Quantity as a 'Trade Sell Allocation';

5.3. For the purposes of calculating a Shippers Aggregate NI Allocations in respect of a Gas Flow Day:

a. A Trade Buy Allocation will be treated as an Entry Allocation; and

b. A Trade Sell Allocation will be treated as an Exit Allocation.

6. Allocations for gas flowed against firm IP Entry Capacity

6.1. Shippers will be provided with Initial IP Entry Allocations by the end of D+1.

6.2. Shippers will be provided with Final IP Entry Allocations by D+5.

6.3. Shippers will not be able to amend their Initial IP Entry Allocations.

6.4. Changes will only be made to Initial IP Entry Allocations, by the NI TSOs, in the event of the need to revert to the Fallback Entry Allocation Rule. It should therefore be noted that while the Prevailing Entry Allocation Rule applies, there will be no change between Initial IP Entry Allocations and Final IP Entry Allocations.

6.5. IP Entry Allocations for Moffat will be determined and provided to Shippers by PTL.

6.6. IP Entry Allocations for South-North will be determined and provided to Shippers by BGE(NI).

6.7. Since, as a result of capacity bundling, it is possible for Shippers to have multiple effective Nominations at an IP in respect of any given Gas Flow Day, Initial and Final IP Entry Allocations will be made 'per Nomination'.

7. Aggregate NI IP Entry Allocations

7.1. As a result of bundled capacity, Shippers may have multiple IP Entry Nominations, i.e. a nomination per capacity product type (Firm bundled orFirm unbundled) and per counterparty.

7.2. Initial IP Entry Allocations and Final IP Entry Allocations will be made for each IP Entry Nomination received.

7.3. Shippers may therefore have multiple Final IP Entry Allocations in respect of an IP and in respect of a given Gas Flow Day.

7.4. For the purposes of calculation of a Shipper's imbalance charges [and overrun charges], each Shipper will need a single Aggregate NI Entry Allocation. This will be the sum of all its IP Entry Allocations for all its nominations/product types and at all IPs in respect of a given Gas Flow Day plus any Trade Buy Allocations;

7.5. The NI TSOs will therefore calculate Aggregate NI Entry Allocations for each Shipper for Gas Flow Day D as follows:

$$\text{Aggregate NI Entry Allocation}_D = \sum \text{Final IP Entry Allocations}_D + \sum \text{Trade Buy Allocations}_D$$

7.6. The TSOs will provide Aggregate NI Entry Allocations by D+5.

8. Exit Allocations at points which are not IPs

8.1. The Codes currently provide (Codes section 3.2) for Initial and Final Exit Allocations to be provided at D+1 and D+5 respectively, except at BGEP1 where Final Exit Allocations are provided at M+5. No changes are proposed to these rules or timings.

8.2. There are provisions (Codes sections 3.5, 3.6 and 3.7) which provide for the allocation of gas amongst parties at a Shared Exit Point. It is not intended to make changes to these rules.

8.3. The Codes section 3.3 currently provide for Final Allocations to be deemed to be firm and interruptible. Under this section, Shippers allocations of gas in excess of the Firm Capacity booked at an Exit Point are deemed to be Interruptible Allocations. This approach will be removed, and replaced with an arrangement whereby allocations of gas in excess of Firm Capacity at an Exit Point will still be considered as Firm Allocations, and will therefore attract a charge associated with the capacity. The charging structure will be determined by the Utility Regulator.

8.4. Also in the Codes section 3.3, Virtual Reverse Flow (VRF) Allocations are provided as Interruptible VRF Allocated Quantities for the relevant VRF contract path. This will be simplified as described further below:

a. With the transition to an Entry-Exit model, the contract path model will no longer apply and VRF will only apply in respect of Moffat and South North IPs. The NI TSOs will therefore no longer need to address VRF flows on contract paths between themselves (in particular at Carrickfergus).

b. It will therefore be possible to remove references to VRF at Exit Points other than Moffat and South North, and it will no longer be necessary for the BGE(NI) Code (section 3.4) to provide for VRF Entry Allocations in respect of Carrickfergus and/or South North[1].

8.5. Instead, the rules for VRF IP Exit Allocations at Moffat and South North (i.e. operating as Virtual Exit Points), will be simplified and adapted to comply with the EU requirements for IPs, in accordance with section 9 below.

9. IP Exit Allocations for Virtual Reverse Flow

9.1. The NI TSOs will be required to offer a day ahead Interruptible VRF IP Exit Capacity product at IPs which will be an unbundled product, offered via the PRISMA platform.

9.2. In addition, the NI TSOs are considering making an Interruptible VRF IP Exit Capacity product available within day, by means of an 'over-nomination procedure', whereby a Shipper's nomination for VRF IP Exit flows will be deemed to be an application for VRF IP Exit Capacity. The NI TSOs are still assessing the systems feasibility of this approach.

9.3. Shippers will make a single (exit) nomination (per counterparty) against Interruptible VRF IP Exit Capacity in respect of a Gas Flow Day.

9.4. The rule for allocations of gas flowed against Interruptible VRF IP Exit Capacity will follow the 'allocate as nominate' principle as follows:

a. in the event of interruption, the Shipper's capacity holding will be interrupted (reduced) and the NI TSOs shall revise Shipper's VRF IP Exit Nominations and/or Renominations downwards as necessary to reflect the Interruption;

b. in the event of interruption, gas allocations will be for the same as the quantities as the Shipper's prevailing confirmed VRF IP Exit (Re)nominations, as revised by the NI TSO to reflect the interruption.

9.5. Shippers will be provided with Initial VRF IP Exit Allocations by the end of D+1.

9.6. Shippers will be provided with Final VRF IP Exit Allocations by the end of D+5.

9.7. IP VRF Exit Allocations for Moffat will be determined and provided to Shippers by PTL.

[1] Carrickfergus and South North Entry VRF Allocations are a feature of the BGENI Code as result of implementing VRF with a contract path model in NI, and they reflect a situation where a Shipper has nominated to flow from South North to a PTL exit point, which would conceptually be delivered via a VRF flow at Carrickfergus. From October 2015, Entry Allocations will only be required at the NI Entry Points and will no longer need to relate to the destination of the contract path. Instead, the Entry rules which result from the implementation of OBAs in these business rules will apply. It will therefore be possible to remove these references in the BGE(NI) Code. The TSOs may still exchange information between themselves and provide for default calculations of entry allocations in the event of failure of this information transfer, but these arrangements will be captured in the NINOA, the operating agreement between the TSOs, rather than in the Codes.

9.8. IP VRF Exit Allocations for South-North will be determined and provided to Shippers by BGE(NI).

10. Shipper Aggregate NI Exit Allocations

10.1. Shippers will receive Initial and Final Exit Allocations in respect of each of their Exit Points in line with the Codes as described above.

10.2. Shippers will receive Initial and Final VRF Exit Allocations at either or both of the IPs in line with the Codes as described above.

10.3. Shippers may therefore have multiple Exit Allocations in respect of a given Gas Flow Day.

10.4. For the purposes of calculation of a Shipper’s imbalance charges, each Shipper will need a single Aggregate NI Exit Allocation. This will be the sum of all its Exit Allocations for all its Exit Points and VRF IP Exit Allocations at both of the IPs in respect of a given Gas Flow Day, plus any Trade Sell Allocations.

10.5. The NI TSOs will therefore calculate Aggregate Exit Allocations for each Shipper for Gas Flow Day D as follows:

$$\text{Aggregate NI Exit Allocation}_D = \sum \text{Final Exit Allocations}_D + \sum \text{Final VRF IP Exit Allocations}_D + \sum \text{Trade Sell Allocations}_D$$

10.6. The NI TSOs will provide Aggregate NI Exit Allocations by M+5

11. Allocations for NI Aggregate Imbalance Calculations

11.1. The NI TSOs may share information with each other concerning Allocations, including VRF IP Exit Allocations, for the purposes of calculating NI Imbalance and other Charges.

11.2. Further rules on imbalance charges and tolerances will be developed and published for consultation separately from these Business Rules. This section is simply to clarify the how Allocations will be used in respect of Shipper’s Imbalances.

11.3. As described above, Shippers will have an aggregate NI Exit Allocation and an Aggregate NI Entry Allocation.

11.4. A Shippers’ imbalance position will be determined as the difference between their Aggregate NI Entry Allocation and their Aggregate NI Exit Allocation.

12. Allocations for IP Entry Capacity Overrun Charges

12.1. Where the sum of a Shipper's IP Entry Allocations at an IP exceeds the total quantity of IP Entry Capacity booked by that Shipper at that IP in respect of a Gas Flow Day, the amount by which the Shipper's IP Entry Allocations exceed its total entry capacity booked will attract an Entry Capacity Overrun charge. The rates for Entry Capacity Overruns will be specified by the Utility Regulator (anticipated to be 8 x daily rate).

13. Transition Details

13.1. The precise approach to transition has yet to be finalised but the remainder of this section outlines the proposed approach:-

Exit Allocations Transition

13.2. The revised exit allocations rules will take effect from 1st October 2015. This means that:

- Close-out of exit allocations will be provided for under the 'old' rules for each day up until and including 30th September;
- For Gas Flow Days commencing 05:00 1st October 2015, the revised exit allocations rules will apply.

Entry Allocations Transition

13.3. The new entry allocations rules will take effect from 1st October 2015. This means that:

- For Moffat, entry allocations will be provided for via the Moffat Agent processes for each day up until and including 30th September 2015;
- Entry Allocation Close out for 30th September 2015 will be 5th October 2015, and during this period any amendments to entry allocations will be processed via the Moffat Agent processes;
- For the Gas Flow Day commencing 05:00 1st October 2015, and thereafter, the new entry allocations rules will apply;
- For South North, the entry allocations rules will apply with effect from 1st October 2015.

14. Consultation Questions

Shippers and other interested parties are invited to give their views on any aspects of these Business Rules. In particular, the NI TSOs would particularly welcome views on the following:

i) the introduction of the 'allocate as nominate' rule at IPs;
ii) the introduction of entry overrun charges ;
iii) whether or not a within day 'over-nomination' procedure for VRF IP Exit Capacity would be of value;
iv) the proposals for aggregation of allocated quantities at entry and at exit;

v) the proposal to remove the current approach of allocating exit flows which exceed booked capacity as interruptible allocated quantities;
vi) the proposals for transition of the arrangements;
vii) any other questions or concerns about the approach.

Responses, and/or parts of responses, may be marked as confidential and will be treated accordingly.

15. How to respond

Shippers wishing to respond to this document are requested to provide their views on or by **28th November 2014**. Responses may be made in writing or by email, or directly to the TSOs.

Written responses should be provided to:

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