

## Final Modification Report No.41

### Incremental Capacity Rules and Quarterly Auction Amendments

7<sup>th</sup> February 2017

Premier Transmission Ltd (PTL) has prepared this report under section 8 of its Transportation Code Modification Rules.

#### **A Description of the nature and purpose of the modification**

This proposal is being made to implement the requirements of forthcoming amendment to the CAM Regulation (EU 984/2013) in relation to incremental capacity.

#### **B The clauses of the Transportation Code that require amendment**

This proposal includes changes to section 1A.8.16 and accompanying minor changes to section 1A to address the change in the quarterly auctions, and a new section 1C to provide the rules for incremental capacity.

#### **C Changes relative to the Initial Modification Report**

Following feedback the changes described in D have been made. The amended text is highlighted in yellow (and where appropriate shown in track changes) in the Final Legal Text.

#### **D Third Party Representations**

PTL received one written response to the Initial Modification Report from British Gas Trading Limited (BGTL). Comments on the consultation are summarised below along with PTL's responses, which are provided in italics.

BGTL expressed the view that the implementation date in the Initial Modification Report (IMR) was vague and would have expected to see a date when the revised CAM code will enter into force (expected to be late March).

*At the time of writing, a specific implementation date was not published, hence the general proposal to implement the proposed modification in March 2017. In this Final Modification Report we have clarified that the intended implementation date of this modification is 31<sup>st</sup> March 2017.*

BGTL commented that the auction of annual capacity in 2017 should occur in March but there is no specific reference to this. BGTL also observed that this may be because PTL expect the modification to be implemented after the March auction.

*PTL does expect the proposed modification to be implemented after the March auction, and as a matter of course, we would not include a specific year in the permanent Code text and we do not consider that transitional rules are needed in this case. We have also now modified the Code text to explicitly reflect the move of the Annual Auction from March to July. Please note that, since this modification is intended to be implemented after this years' Annual Auction in March, the first Annual Auction to be held in July will take place in July 2018. These dates are in line with the Auction Calendar published by ENTSOG as also set out in the Code.*

BGTL noted that in its' view, in section G3.6 of the IMR, reference is incorrectly made to incremental capacity being bundled. BGTL believe that incremental capacity does not have to be bundled.

*In PTL's view, the text of the Regulation (for example Art 24 (1)) is clear that incremental capacity may be bundled:*

*"1. In order to facilitate the offer of bundled capacity products, individual economic test parameters of the involved transmission system operators for a given offer level shall be combined into a single economic test."*

*However, we also take the view that it is not necessarily a requirement that incremental capacity must be bundled in all circumstances. We have therefore deliberately left this unspecified in the legal text, though the text does require that the TSOs consult on all the details of a proposed offer of incremental capacity and this would include whether or not it was to be bundled and consequently the subject of a joint economic test (see 1C.3.3(c) and (j)).*

BGTL noted that would be helpful if PTL could accept ad hoc requests for incremental capacity outside of the biennial demand assessment process – this is alluded to in the "Methodology Statement" of section G3.7 (of the IMR) but BGTL believes it would more appropriately be included in the PTL code.

*We anticipate that Shippers may wish to submit an informal expression of interest in incremental capacity at any time, and the intention of the provision of an ad hoc Market Demand Assessment (MDA) (1C.2.3.) is to deal with such circumstances. The Code text does not exclude or prevent Shippers submitting an expression of interest at any time, but the decision to proceed with an ad hoc MDA must be at the discretion of the TSOs.*

*Should the TSOs receive an expression of interest which they consider warrants a MDA process sooner than the next biennial MDA, they will utilise the ad-hoc process provided for in section 1C.2.3 (i.e. with shortened timescales so that the process is concluded before the next scheduled MDA) to assess the interest/demand from the whole of the market.*

*We have reviewed National Grid's proposals on this point and consider that the PTL Code text is aligned and would operate in a coordinated fashion alongside National Grid's process, where applicable.*

*The intention with the Methodology Statement would be to give further guidance about the circumstances in which the TSOs would be likely to consider that an ad hoc process was warranted, for example, if a corresponding expression of interest had been submitted to National Grid, or multiple Shippers had expressed interest in incremental capacity at the same location. We would also use it to highlight that Shippers may discuss their potential interest with the TSO and/or submit informal expressions of interest at any time.*

BGTL expressed the opinion that there are a number of governance gaps that, notwithstanding National Regulatory Authority (NRA) inclusion in the process, should be covered to the extent possible and made binding on PTL. For example, BGTL considers that the parameters to inform the economic test should be either specified or the process for agreeing them should be set out and that the process for determining how any withheld capacity is determined and paid for should be made clear, as should how this impacts on the economic test. BGTL also notes that PTL should explain how any unsold capacity at the Interconnection Point (IP) (could occur in the future) is managed and reserved as part of the incremental process.

BGTL believes that the attempt to cover the above points in a Methodology Statement that is not contractually binding, or subject to NRA approval, doesn't provide sufficient certainty on process.

*PTL appreciates that the Code text is reasonably minimal on the subject of the parameters of the economic test. This is because it is difficult, and probably undesirable economically, to specify these in advance. Given the potential for a joint requirement at an IP, there is always the possibility that a joint process would have to be utilised and this would require the involvement of, and approval by, both NRAs. It would be unwise to attempt to determine in advance, for example, whether there should be any cost redistribution across the IP as these types of issues would be much better addressed on a case-by-case basis.*

*However, anticipating that it is important to provide as much certainty as possible over the parameters of the economic test, we have discussed the importance of the regulatory framework and clear policy setting with the Utility Regulator (UR). This is particularly important in the NI regime where user commitment is not a prominent feature and large parts of the transmission network are operated by a mutualised company with a specific remit to operate them based on the relatively low cost debt financing that was achieved for the purposes of their construction.*

*We would expect that a Methodology Statement would assist in providing as much clarity as it is possible for the TSOs to give around the parameters of the economic test and we would note that we definitely expect that any such Methodology Statement would have to be approved by UR.*

*The Code text does require that all the parameters of the economic test are set out for consultation (1C.3.3) and subsequently the details would be included in the information to be submitted for approval by the Regulator (1C.4.2).*

*The Regulation stipulates that how much capacity is to be withheld is to be finally determined by the Regulator (Art 23(1a) and Art 30 (5)) and particularly in the latter case, our understanding is that this should be capable of variation depending on the extent of any conditions being imposed. These may vary with each specific case and it is therefore not possible to prescribe this specifically in advance.*

*In relation to how unsold capacity at the IP is managed and reserved, we note that National Grid has a section of its proposed code text dealing with the possibility of overlap between the binding phase of an incremental process and another long-term allocation process. We would expect it to be clear that any quantity of incremental capacity would be being offered in addition to the existing technical capacity at an IP and we note that there are no capacity substitution rules in NI. Therefore, it should be clear in the information associated with each individual process what unsold existing capacity would be on offer (in the regular auctions) and what quantity of incremental capacity was being offered (as this would always be in addition to any unsold technical capacity). Since this is obviously not apparent from our Code text, we would clarify this in the Methodology Statement.*

*We are especially aware that the compressed timescales for implementation have meant that the Code text must be prepared in advance of a Methodology Statement and this creates some uncertainty. However, given the potential for variability in the process each time it is performed, we consider that the details are best covered in a Methodology Statement, and as mentioned above, this and any subsequent changes to it would have to be approved by UR.*

*BGTL suggested that the legal drafting for code clause 1A.8.16 needs reviewing/corrections for example in the case of (a) noted that the second “Y+1” should be “Y”. BGTL also suggested that it would be better to refer to the same gas year in each sub-clause (e.g. “Y+1”) and link the auction dates to this.*

*Thank you for highlighting this. The proposed changes to the Code text are in highlighted in yellow in section H.*

**E Impact on other Designated Pipeline Operator's Network Codes:**

PTL has worked with GNI (UK) to develop a co-ordinated approach to the Codes. GNI (UK) published a corresponding Modification Proposal which closely mirrors the changes contained in this Code Modification Proposal for the PTL Code. Neither the Belfast Gas Transmission Limited nor the West Transmission Limited Code contains rules for IP Capacity since there are no IPs on their respective networks. Hence no changes are required to those Codes. The TSOs anticipate that the rules will be incorporated into the Single Code when it is prepared next year.

**F PTL's Recommendation**

PTL believes that the Relevant Objective, (condition 2.4 of the PTL Licence) will be better facilitated by the Licensee's Network Code as a result of this modification. This set of changes will contribute to the secure, safe, reliable, efficient and economic development and maintenance of the Network by ensuring that the rules for the auctioning of quarterly capacity and rules for the assessment of market demand for incremental capacity, the technical design, and the allocation of such incremental capacity remain co-ordinated with the upstream transporters as required by the amendment to the CAM Regulation (EU 984/2013).

**G The date proposed for implementation**

PTL suggests that the proposed modification is implemented with effect from 31<sup>st</sup> March 2017.

## H Final Legal Text

Please find the final legal text for this Code Modification Proposal below, marked up to show changes in track and changes relative to the IMR are highlighted in yellow.

*Amend section 1A.4.2 (g) to read as follows:*

**1A.4.2 (g)** “**Auction Year**” is the period of 12 months commencing 1<sup>st</sup> ~~March~~July in any year. In relation to any Auction Year, Gas Year Y is the Gas Year ending 30<sup>th</sup> September in the Auction Year;

*Amend section 1A.5.1 to read as follows:*

### **1A.5 The Auctions to be held**

1A.5.1 The following Auctions in respect of IP Capacity of different IP Capacity Durations will be held in each Auction Year:

- (a) Auctions held once in each Auction Year, in respect of Yearly IP Entry Capacity for each of Gas Years Y + 1 to Y + 15 (“**Annual Yearly Auctions**”);
- (b) Auctions held ~~once~~four times in respect of each Auction Year in respect of Quarterly IP Entry Capacity for each Quarter ~~in Gas Year Y+1~~ (“**Annual Quarterly Auctions**”);

*Amend section 1A.7.5 to read as follows:*

1A.7.5 In relation to the Annual Yearly Auctions, an amount of Technical IP Entry Capacity must be set aside from the amount of IP Entry Capacity to be made available, determined (by reference to the IP Capacity Period) as follows:

- (a) in relation to each of the Gas Years Y+1 to Y+5 an amount equal to 10% of the existing Technical IP Entry Capacity;
- (b) in relation to each of the Gas Years Y+6 to Y+15 an amount equal to 20% of the existing Technical IP Entry Capacity;

or in either case, if less, the full amount of the Unsold Technical IP Entry Capacity.

*Amend section 1A.8.12 to read as follows:*

1A.8.12 The date by which the Auction Information shall be available to Shippers shall be:

- (a) in relation to an Annual Yearly Auction, at least one month before the Auction Date;
- (b) in relation to an Annual Quarterly Auction, two weeks before the Auction Date;
- (c) in relation to a Rolling Monthly Auction, one week before the Auction Date.

.....  
 Amend section 1A.8.15 (by inserting new heading above) and 1A.8.16 to read as follows:

**Auction Dates**

1A.8.15 In relation to the Annual Yearly Auction, the Auction Date will be the first Monday in March-July (or as otherwise specified in the Auction Calendar).

1A.8.16 In relation to the Annual Quarterly Auctions:-

- (a) the first Annual Quarterly Auction shall offer Quarterly IP Entry Capacity for Q1, Q2, Q3 and Q4 of Gas Year Y+1 and the Auction Date shall be the first Monday of August in Gas Year Y+1;
- (b) the second Annual Quarterly Auction shall offer Quarterly IP Entry Capacity for Q2, Q3 and Q4 of ~~the current~~ Gas Year Y+1 and the Auction Date shall be the first Monday of November in Gas Year Y+1;
- (c) the third Annual Quarterly Auction shall offer Quarterly IP Entry Capacity for Q3 and Q4 of ~~the current~~ Gas Year Y+1 and the Auction Date shall be the first Monday of February in Gas Year Y+1;
- (d) the fourth Annual Quarterly Auction shall offer Quarterly IP Entry Capacity for Q4 of ~~the current~~ Gas Year and the Auction Date shall be the first Monday of May in Gas Year Y+1

~~the Auction Date will be the first Monday in June (or as~~ the Auction Dates will be as otherwise specified in the Auction Calendar).

.....  
 Amend section 13.2.8 to read as follows:

**Calculation of Short Term Required Level of Credit Support**

13.2.8 In this Code:

- (a) **“Forecast Short Term Charges”** means the forecast charges for Short Term Capacity Products;
- (b) **“Forecast Other Charges”** comprises forecast charges for:
  - (i) Forecast Postalised Commodity Charges;

- (ii) Exit Capacity;
  - (iii) Yearly IP Entry Capacity;
  - (iv) ~~Quarterly IP Entry Capacity;~~ and
  - (v) PS Code Charges;
- (c) **“Short Term Capacity Products”** means Monthly IP Entry Capacity, Daily IP Entry Capacity, Quarterly IP Entry Capacity and Interruptible VRF IP Exit Capacity.

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 Immediately following section 1B, insert new section 1C to read as follows

## 1C. INCREMENTAL CAPACITY

### 1C.1 Introduction and Definitions

- 1C.1.1 Premier Transmission shall assess the demand for, offer and allocate Incremental Capacity for which user commitment is required in accordance with this section 1C.
- 1C.1.2 In this Code:
- (a) **“Incremental Capacity”** means:
    - IP Entry Capacity that is, or is to be:
      - (i) provided via an increase in Technical IP Entry Capacity and/or via investment in physical infrastructure; and
      - (ii) allocated to Shippers subject to the positive outcome of 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 Economic Test;
  - (b) **“Firm Reverse Flow IP Exit Capacity”** means physical capacity at an Interconnection Point in the Reverse Flow Direction which is, or is to be, offered and allocated to Shippers on a Firm basis;
  - (c) **“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 1C.6.2;

- (d) an **“Incremental Capacity Project”** is a project to increase the amount of Technical IP Entry Capacity at an existing Interconnection Point, deliver Firm Reverse Flow IP Exit Capacity at an existing Interconnection Point and/or establish a new Interconnection Point based on capacity allocation in an earlier Incremental Capacity Process;
- (e) an **“Incremental Capacity Process”** is a process held in accordance with section 1C.2 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;
- (f) **“Binding Bids”** means bids submitted by Shippers for Incremental Capacity in an ICAM which are not subject to any conditions;
- (g) **“Binding Conditional Bids”** means bids submitted by Shippers for Incremental Capacity in an ICAM which are subject to certain conditions as specified in section 1C.5.5;
- (h) **“Design Phase”** means the period during which Premier Transmission shall prepare a draft project proposal for publication in accordance with section 1C.3;
- (i) **“Incremental Capacity Project Solution”** means the solution for delivering Incremental Capacity determined during the Design Phase;
- (j) **“Incremental Capacity Allocation Mechanism”** or **“ICAM”** means the allocation mechanism specified by Premier Transmission for the allocation of Incremental Capacity in accordance with section 1C.5;
- (k) **“f-factor”** means the proportion, approved by the Authority, of the present value of the estimated increase in the allowed revenue of Premier Transmission 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;
- (l) **“Potential Premium”** means an additional amount to be added to the Forecast Postalised Annual Capacity Charges for the relevant Gas Years to be specified by Premier Transmission subject to approval by the Authority.

1C.1.3 For the avoidance of doubt, new capacity for which a final investment decision is taken without requiring user commitment shall be offered to Shippers as IP Capacity. 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.

## 1C.2 Incremental Capacity Process

### Market Demand Assessment

- 1C.2.1 Premier Transmission shall assess market demand for Incremental Capacity in accordance with this section 1C.2.
- 1C.2.2 Premier Transmission shall assess market demand for Incremental Capacity in each odd-numbered year as soon as practicable after the Annual Yearly Auctions ("**Market Demand Assessment**").
- 1C.2.3 Premier Transmission 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 Transporter 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 Premier Transmission and notified to Shippers with the invitation to submit Non-Binding Demand Indications issued pursuant to section 1C.2.4;
  - (c) shall be concluded before the start of the next Annual Yearly Auctions;

and the remaining provisions of this section 1C, 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

- 1C.2.4 When carrying out a Market Demand Assessment in accordance with section 1C.2.2 or an Ad-hoc Market Demand Assessment in accordance with section 1C.2.3, Premier Transmission shall invite Shippers to submit "**Non-binding Demand Indications**"/"**NBDIs**" as further described in section 1C.2.5.
- 1C.2.5 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 1C.2.5(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 1C.2.5(a);
  - (e) relevant information about corresponding non-binding demand indications submitted, or being submitted, to Adjacent Transporters 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 1C.2.5(a) to 1C.2.5(e) which may include but

not be limited to the conditions set out in section 1C.5.5 (“**Conditional Demand Indications**”).

- 1C.2.6 Premier Transmission’s invitation to submit NBDIs shall specify:
- (a) any relevant fees which Premier Transmission 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 Premier Transmission considers to be relevant to the current Incremental Capacity Process or future Incremental Capacity Processes.
- 1C.2.7 Any fees applied by Premier Transmission pursuant to section 1C.2.6(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 Authority;
  - (c) published on Premier Transmission’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.
- 1C.2.8 A Shipper may submit an NBDI after the deadline specified in section 1C.2.6(b) (a “**Late NBDI**”).
- 1C.2.9 At the sole discretion of Premier Transmission Late NBDIs may be considered:
- (a) during the current Incremental Capacity Process; and/or
  - (b) during future Incremental Capacity Processes.

### **Market Demand Assessment Report**

- 1C.2.10 No later than 8 weeks after the start of the Annual Yearly Auctions Premier Transmission shall, in co-ordination with the Adjacent Transporter where relevant, commence the production of a report on its Market Demand Assessment (the “**Market Demand Assessment Report**”).
- 1C.2.11 The Market Demand Assessment Report shall take into account:
- (a) whether the EUTYDP or the Ten Year Statement indicate 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 IP Entry Capacity have been exhausted.

1C.2.12 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 1C.2.6(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 Premier Transmission 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 Processes which were not considered within the previous Incremental Capacity Process;
- (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**

1C.2.13 Premier Transmission 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.

1C.2.14 Premier Transmission's response to Shippers pursuant to section 1C.2.13 shall include at least the following information:

- (a) whether the demand indicated can be considered by Premier Transmission in the current Incremental Capacity Process;
- (b) whether sufficient demand has been indicated overall for Premier Transmission to consider the initiation of an Incremental Capacity Project;
- (c) in the case of a Late NBDI:
  - (i) whether or not Premier Transmission 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.

1C.2.15 The Market Demand Assessment Report shall be published by Premier Transmission on its Website no later than 16 weeks after the start of the Annual Yearly Auctions.

### **Design Phase**

#### **1C.3 Design Phase, Technical Studies, Initial Design and Consultation**

- 1C.3.1 Where Premier Transmission 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.
- 1C.3.2 Premier Transmission shall, jointly with the Adjacent Transporter 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.
- 1C.3.3 Premier Transmission shall, jointly with the Adjacent Transporter 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 Auctions in accordance with section 1C.5.4;
  - (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 the NI Network or the Interconnected System or along the same gas transport route;
- (f) the estimated f-factor;
- (g) the Forecast Postalised Annual 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 Premier Transmission 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.

#### **1C.4 Project Approval**

1C.4.1 Following the Draft Project Proposal Consultation in section 1C.3 Premier Transmission shall, jointly with the Adjacent Transporter where relevant, prepare an Incremental Capacity Project Proposal taking into account responses to the consultation.

1C.4.2 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 Premier Transmission 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.

1C.4.3 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 Transporter, Premier Transmission shall submit the Incremental Capacity Project Proposal to the Authority for approval and publish such Incremental Capacity Project Proposal on its Website.

1C.4.4 Following receipt of the approval of the Authority, Premier Transmission 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 1C.4.2 (“**Approved Project Proposal**”);
- (b) details of any contracts which may be offered in relation to the Incremental Capacity.

1C.4.5 Where the Authority does not approve an Incremental Capacity Project Proposal Premier Transmission shall publish the relevant information as soon as reasonably practicable and the Incremental Capacity Project shall be terminated.

### **1C.5 Incremental Capacity Allocation Mechanism**

1C.5.1 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 1C.5;
- (c) be co-ordinated with the Adjacent Transporter, where relevant;
- (d) be approved by the Authority.

1C.5.2 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**

1C.5.3 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.

1C.5.4 The amount of Incremental Capacity to be set aside shall be specified by Premier Transmission in the Draft Project Proposal Consultation, consulted upon in accordance with section 1C.3 and subject to approval by the Authority in accordance with section 1C.4.

#### **Binding Conditional Bids**

1C.5.5 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.

- 1C.5.6 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 Authority.

## **1C.6 Economic Test**

- 1C.6.1 Once Binding Conditional Bids and/or Binding Bids have been received by Premier Transmission, it shall apply the Economic Test in accordance with this section 1C.6.

- 1C.6.2 The Economic Test shall consist of the following parameters:

- (a) the present value of Binding Conditional Bids (or where applicable Binding Bids) calculated as the sum of the respective Forecast Postalised Annual 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 Premier Transmission associated with the Incremental Capacity being offered as approved by the Authority;
- (c) the f-factor.

- 1C.6.3 The "**Revenue Contribution Required**" shall be the f-factor multiplied by the value of the parameter in section 1C.6.2(b).

- 1C.6.4 The outcome of the Economic Test shall be:

- (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.

- 1C.6.5 Where the outcome of the Economic Test is positive the Incremental Capacity Project shall be progressed by Premier Transmission to enable delivery of the Incremental Capacity Project Solution in accordance with the timescales set out in the Approved Project Proposal.

- 1C.6.6 Where the outcome of the Economic Test is negative the Incremental Capacity Project shall be terminated.

- 1C.6.7 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**

- 1C.6.8 Where relevant Premier Transmission may jointly apply the Economic Test in conjunction with the Adjacent Transporter (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 Authority.



*Insert the following new terms in Appendix 1 to read as shown in the list below:*

- “**Ad-hoc Market Demand Assessment**” has the meaning given to it in section 1C.2.3;
- “**Approved Project Proposal**” has the meaning given to it in section 1C.4.4;
- “**Binding Bids**” has the meaning given to it in section 1C.1.2(f);
- “**Binding Conditional Bids**” has the meaning given to it in section 1C.1.2(g);
- “**Conditional Demand Indications**” has the meaning given to it in section 1C.2.5(f);
- “**Design Phase**” has the meaning given to it in section 1C.1.2(h);
- “**Draft Project Proposal Consultation**” has the meaning given to it in section 1C.3.3;
- “**Economic Test**” has the meaning given to it in section 1C.1.2(c);
- “**EUTYDP**” means the EU-wide ten-year network development plan;
- “**f-factor**” has the meaning given to it in section 1C.1.2(k);
- “**Firm Reverse Flow IP Exit Capacity**” has the meaning given to it in section 1C.1.2(b);
- “**Incremental Capacity**” has the meaning given to it in section 1C.1.2(a);
- “**Incremental Capacity Allocation Mechanism**”/“**ICAM**” has the meaning given to it in section 1C.1.2(j);
- “**Incremental Capacity Project**” has the meaning given to it in section 1C.1.2(d);
- “**Incremental Capacity Process**” has the meaning given to it in section 1C.1.2(e);
- “**Incremental Capacity Project Solution**” has the meaning given to it in section 1C.1.2(i);
- “**Joint Economic Test**” has the meaning given to it in section 1C.6.8;
- “**Late NBDI**” has the meaning given to it in section 1C.2.8 and “**Late NBDIs**” shall be construed accordingly;
- “**Market Demand Assessment**” has the meaning given to it in section 1C.2.2;
- “**Market Demand Assessment Report**” has the meaning given to it in section 1C.2.10;
- “**Non-binding Demand Indications**”/“**NBDIs**” has the meaning given to it in section 1C.2.4 and “**Non-binding Demand Indication**”/“**NBDI**” shall be construed accordingly;
- “**Potential Premium**” has the meaning given to it in section 1C.1.2(l);
- “**Revenue Contribution Required**” has the meaning given to it in section 1C.6.3;
- “**Total Bid Value**” has the meaning given to it in section 1C.6.2(a);

- “Q1” means the Quarter commencing 1 October of a given Gas Year Y;
- “Q2” means the Quarter commencing 1 January of a given Gas Year Y;
- “Q3” means the Quarter commencing 1 April of a given Gas Year Y;
- “Q4” means the Quarter commencing 1 July of a given Gas Year Y;