

**Premier Transmission**

**&**

**GNI (UK)**

**OS Scheme**

**and**

**CMP Methodology Statement**

Version 2.0

9<sup>th</sup> September 2016

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## 1. Document Requirement

The Licences for the conveyance of gas in Northern Ireland require the Transporters to prepare and submit for approval to the Northern Ireland Authority for Utility Regulation (**“the Authority”**) arrangements for the oversubscription and buyback of capacity (the OS Scheme) incorporating an OS Charging Statement. The OS Scheme relates to the implementation of Congestion Management Procedures at an Interconnection Point (IP) in accordance with Annex 1 (**“the CMP Annex”**) of the Regulation EU 715/2009.

Premier Transmission and GNI (UK) have IP’s on their transmission system and so must comply with the licence requirement. BGTL and WTL are also TSOs in Northern Ireland, but there are no IP’s on their respective transmission systems, and therefore the implementation of an OS Scheme and/or Congestion Management Procedures does not apply. References in this document to the TSOs therefore refer to PTL and GNI (UK) only.

Each TSO operates the OS Scheme and the CMP Mechanisms independently, in respect of the IP on its transmission system. (i.e. PTL in respect of Moffat IP and GNI(UK) in respect of South North IP). However, the procedures which they each operate are the same, hence they are presented in this single, joint document.

As well as setting out the OS Scheme, this document sets out the procedures the TSOs will apply when implementing other congestion management procedures, as contemplated by the PTL Code and the GNI (UK) Code (together referred to here as the “Network Codes”), section 1A.16 to 1A.19 (the “CMP Mechanisms”). These procedures also require regulatory approval according to the CMP Annex and are included in this document to enable their governance by the Authority.

## 2. Governance & Document Status

This document was published on 9<sup>th</sup> September 2016 with the approval of the Authority and can only be amended with the approval of, or by direction of, the Authority . It has been updated since it was first published in 2014 to reflect the introduction of capacity auctions at IPs.

Capitalised terms used in this document have the meaning given to them in the TSO’s respective Licences for the conveyance of gas in Northern Ireland, or their respective Network Codes, or otherwise where given to them in this document.

This document is published by the TSOs as the OS Scheme required under their respective licences. Although this document is required by licence, and must be approved by the Authority, its purpose is to provide guidance and explanation and to set out the detail of the procedures that the TSOs shall follow in implementing the contractual rules contained in the Code.

Therefore, it is important to note that this document is not contractually binding as between the Shippers and the TSOs. For the avoidance of doubt, should there be any discrepancy or difference of interpretation between this document and the Network Codes, the terms of the Network Codes shall prevail.

### **3. Introduction**

#### **3.1. The application of an Activation Test**

The CMP Annex requires the implementation of Congestion Management Procedures only when there is contractual congestion. The contractual rules in the Network Codes will therefore come into force (according to the Transition Section T9 of the Network Codes) only when an Activation Test is passed. Alternatively, the TSOs may decide to bring certain sections of the Network Codes into force individually, earlier than the test is passed, should they believe it to be appropriate and technically feasible to do so (according to Transition Section T9 of the Network Codes).

The Network Codes Transition Section T9 specify that the CMP Activation Date is the date at which the Activation Test is passed, and the OS Effective Date (which is a date specified by the TSO) shall be 6 months after the CMP Activation Date or sooner if possible. This reflects the requirement to ensure that appropriate systems and procedures are in place, to enable the TSOs to manage the arrangements, before the administration of the OS Scheme and the Congestion Management Procedures commences.

Section 4 of this document sets out the Activation Test and how and when it will be applied, as well as describing how and when early implementation of some or all of the CMP Mechanisms might be considered.

#### **3.2. Oversubscription Capacity**

Oversubscription Capacity is IP Entry Capacity which is to be offered to Shippers as part of Allocable IP Entry Capacity in an Auction. The intended purpose of Oversubscription Capacity is to release (to the market) IP Entry Capacity which has been sold but is not being used.

On any day where Oversubscription Capacity has been sold to Shippers, the TSOs may also buy back capacity, if need be. The contractual rules for the offering and allocation of Oversubscription Capacity are in the Network Codes section 1A.16, which simply state that it shall be offered as Additional IP Entry Capacity and the order of priority (i.e. last) in which Oversubscription Capacity is to be allocated.

The buyback rules are in the Network Codes section 1A.19.

Sections 5 of this document set out when and how the TSOs will decide to offer Oversubscription Capacity, and the way in which they determine how much is to be offered.

Section 6 sets out when and how the TSOs may choose to buy back capacity. Section 7 is the OS Charging Statement, and describes how Oversubscription Capacity is to be charged for.

Sections 8 and 9 set out how the revenue obtained from any sale of Oversubscription Capacity, and/or required to buy back capacity, is treated under the incentive scheme.

### **3.3. Other CMP Mechanisms**

The CMP Annex requires that TSOs should allow Shippers to surrender unwanted capacity. The contractual rules for surrender of IP capacity, (and its re-offer to the market by the TSOs) are contained in the Network Codes (section 1A.17 and Transition Section T9).

Section 10 of this document provides a brief explanation of how the surrender rules operate.

The CMP Annex also requires that TSOs should apply a Long Term Use-it-or-Lose-it (“**LTUIOLI**”) mechanism, which entails the permanent withdrawal of (long term) underutilised capacity from Shippers, and the re-sale of such capacity by offering it to Shippers as part of the Allocable IP Entry Capacity available in an Auction. In order to determine whether Shippers are systematically (long term) under-utilising capacity, the TSOs are required to monitor individual Shipper’s capacity usage on a regular basis.

Section 11 of this document clarifies how and when the TSOs may determine that they consider it may be appropriate to withdraw capacity from a Shipper, how much capacity should be withdrawn and the period for which it should be withdrawn.

## **4. Activation Test and Commencement of CMP Mechanisms**

### **4.1. Activation Test**

4.1.1. The Activation Test is, that if:

- (a) all the Technical Capacity for Gas Year Y or a quarter in Gas Year Y which was offered in the Annual Yearly Auction and/or the Annual Quarterly Auction was sold out (or none was available to be offered); **and**
- (b) Shippers bid for firm IP Entry Capacity in either the Annual Yearly Auction and/or the Annual Quarterly Auction but were unable to obtain it;

then the TSO's shall determine that contractual congestion exists at the relevant IP.

4.1.2. The TSOs shall review the bids in the IP Entry Capacity Auctions and apply the Activation Test in 4.1.1 and publish their findings no later than 5 Business Days after the Annual Quarterly Capacity Auction during Gas Year Y-1. PTL shall conduct the review in respect of Moffat IP and GNI (UK) shall conduct the review in respect of South North IP. The first such review shall be carried out in Gas Year 2015/2016.

### **4.2. Explanation of the Activation Test**

4.2.1. The Activation Test is a test of whether there is contractual congestion at an IP. The Gas Regulation 715/2009 defines contractual congestion as a '*situation where the level of firm capacity demand exceeds the technical capacity*' and the technical capacity is defined as the '*maximum firm capacity that the transmission system operator can offer to the network users, taking account of system integrity and the operational requirements of the transmission network*'. Therefore, for the Activation Test to be passed, essentially there has to be unfulfilled demand for long term IP Entry Capacity.

4.2.2. The Activation Test is described in terms of the long term auctions and the longer duration capacity products available, in line with the longer term perspective of the LTUIOLI mechanism. However, it should be noted that it is possible, in theory, that there could be shorter term contractual congestion.

### **4.3. Early implementation of certain CMP Mechanisms**

4.3.1. In the event of shorter term contractual congestion, the LTUIOLI mechanism would be of no assistance in managing the situation, and in such circumstances it may therefore be appropriate, in theory, to implement oversubscription and buyback prior to the full implementation of all of the CMP Mechanisms. This is the reason why the Network Codes permit the TSOs to implement certain sections of the (CMP-related) Network Code rules individually as and when they consider it appropriate (Code section T9.2.1 (b)).

4.3.2. However, it should be noted (particularly in the relatively small and simple NI Network) that it is more likely that short term unfulfilled demand for capacity is the result of a shortage of technical capacity (i.e. physical congestion), as opposed to there being

contractual congestion (i.e. short term capacity hoarding). Physical congestion could only be alleviated by infrastructure investment.

- 4.3.3. The CMP Annex requires that Oversubscription Capacity is allocated only after all the firm unsold capacity has been allocated (and any surrendered or withdrawn capacity is also allocated before Oversubscription Capacity). This means that Firm Technical Capacity has to be sold out before Oversubscription Capacity can be allocated. In order to assess whether the situation was arising due to contractual or physical congestion, it would be necessary to evaluate the level of Shipper nominations relative to the levels of capacity sold/being requested in auctions.
- 4.3.4. Therefore, while the formal Activation Test is expressed in terms of the longer term, should the situation arise during the year where, for example, the shorter term auctions are consistently selling out, but nominations are not close to the level of firm technical capacity, the TSOs may choose to interpret this as a signal of short term contractual congestion, and initiate oversubscription and buyback procedures as soon as possible. The TSOs monitor the level of demand for short term capacity on an ongoing basis, and shall make this determination if they consider it appropriate to do so.

#### **4.4. CMP Mechanisms Activation**

- 4.4.1. Once contractual congestion has been determined to exist at an IP in accordance with the test in 4.1.1 the CMP Mechanisms (including the OS Scheme) shall be activated by the relevant TSO at the relevant IP, with effect from the start of the Gas Year Y, or as soon as possible thereafter, given that there would be a 6-month lead time, or such shorter period as may be feasible, to enable IT Systems delivery.
- 4.4.2. As set out in section 4.2 above, and in accordance with the Network Codes section T9.2.1 (b), the TSOs may make a decision to activate any or all of the CMP Mechanisms in respect of either or both IPs, at any time prior to the Activation Test being passed, subject to written approval from the Authority.
- 4.4.3. Where a TSO activates one or more of the CMP Mechanisms within a Gas Year, it shall inform Shippers of the relevant IP(s) and the date from which the mechanism(s) will be activated giving 6 months' notice, or such shorter period as may be feasible, to enable IT Systems delivery.

#### **4.5. Firm Day Ahead Use-it-or-Lose-it**

- 4.5.1. The CMP Annex section 2.2.3 requires that a TSO should implement Firm Day Ahead Use-it-or-Lose-it rules (FDA UIOLI Rules) in respect of an IP if:
  - (a) it finds in its monitoring report (see 11.1.1) that demand for IP Capacity exceeds that offered, at the reserve price, for certain products and durations set out in the FDA UIOLI Criteria (see below); and
  - (b) the monitoring report shows that it is likely that this situation will re-occur in the next 3 years.



- 4.5.2. The FDA UIOLI Rules in the CMP Annex section 2.2.3 set certain restrictions on Shippers' renominations within day, but would ***only apply for Shippers holding more than 10% of the contracted capacity at an IP.***
- 4.5.3. The **"FDA UIOLI Rules"** (which are formally set out in the CMP Annex) are outlined below:
- (a) firm renomination is permitted up to 90% and down to 10% of a Shipper's IP Capacity, however;
    - (i) if the nomination exceeds 80% of the Shipper's IP Capacity, half the non-nominated volume may be renominated upwards;
    - (ii) if the nomination does not exceed 20% of the Shipper's IP Capacity, half the nominated volume may be renominated downwards; and
  - (b) the restricted part of the Shipper's IP Capacity may be renominated (by the original capacity holder) on an interruptible basis.
- 4.5.4. The FDA UIOLI Rules would **only** need to be implemented if the FDA UIOLI Criteria are met (i.e. contractual congestion has been determined, the monitoring report has been implemented, and there is excess demand for the specific products and durations in the FDA UIOLI Criteria) but the rules are otherwise not required. The TSOs have therefore not included those rules in the Codes or developed the associated system functionality at this time but would do so if/when the FDA UIOLI Criteria are passed.
- 4.5.5. The **"FDA UIOLI Criteria"** are that in a monitoring report, demand for capacity exceeded that offered for capacity products for use in either that year or in one of the subsequent two years:
- a) for at least three firm capacity products with a duration of one month; or
  - b) for at least two firm capacity products with a duration of one quarter; or
  - c) for at least one firm capacity product with a duration of one year or more; or
  - d) where no firm capacity product with a duration of one month or more has been offered.
- 4.5.6. Once the Activation Test for congestion has been passed and the monitoring report is being routinely produced, the assessment of the FDA UIOLI criteria will be included in the routine reports. Should the criteria be met, the TSOs will include the FDA UIOLI Rules in the Code and develop the system functionality needed in order to comply with this requirement of the CMP Annex at the earliest opportunity.

## **THE OS SCHEME**

## **5. Oversubscription Capacity**

### **5.1. Oversubscription Capacity Quantity**

- 5.1.1. The amount of Oversubscription Capacity to be made available shall be determined in accordance with this section 5.1.

#### ***Historic Analysis***

- 5.1.2. In respect of an IP, before the start of each month, the relevant TSO shall make an analysis of historic capacity under-utilisation with respect to each Day of:
- (a) the corresponding month of the previous year or years; and
  - (b) the month which is two months previous to the month for which Oversubscription Capacity is to be made available;
  - (c) any other period the TSO considers to be relevant.
- 5.1.3. Before the start of each month, the TSO shall make a prediction of the under-utilisation of capacity in respect of the IP for the Days in the following month, taking into account:-
- (a) anticipated gas demand;
  - (b) historic analysis;
  - (c) recent trends;
  - (d) any other information they consider to be relevant (including Virtual Reverse Flow).
- 5.1.4. Before the start of each month, the TSO shall make an assessment of the risk of Buyback which is likely to arise for the Days in following month.
- 5.1.5. Each day, at the D-1 stage in respect of Gas Flow Day D, the TSO shall review the analysis performed under 5.1.2 and 5.1.3 in the light of recent flows and capacity bookings, and conclude on how much under-utilised capacity could be made available as Oversubscription Capacity in respect of the Gas Flow Day D, taking into account all the considerations above.
- 5.1.6. The Oversubscription Capacity which the TSO will make available shall not exceed a maximum limit equal to 5% of Technical Capacity of the relevant IP.
- 5.1.7. Notwithstanding the above analysis and guidelines for the calculation of the amount of Oversubscription Capacity which may be offered, the TSO will make the final decision as to the appropriate amount to be offered, and may offer a zero amount of Oversubscription Capacity where it believes it is appropriate to do so.
- 5.1.8. The TSO may revise the amount of Oversubscription Capacity available from time to time (including within day, although the TSO would not reduce the amount of Oversubscription Capacity available within day below the level of any Oversubscription Capacity which had already been sold for that day).

## **5.2. Notification and Publication of the Amount of Allocable IP Entry Capacity**

- 5.2.1. The relevant TSO will publish a general notification to Shippers on its website that Oversubscription Capacity is being made available in respect of the relevant IP but shall not publish a separate amount of capacity which is available as Oversubscription Capacity on any given Day.
- 5.2.2. Oversubscription Capacity shall be made available by the TSO as part of the Allocable IP Entry Capacity in the Rolling Day Ahead Auctions and the Within Day Auctions for IP Entry Capacity accordance with section 1A of their respective Network Codes.
- 5.2.3. The total amount of Allocable IP Entry Capacity available in any given auction shall be viewable on the Capacity Platform (PRISMA).

## **5.3. Oversubscription Capacity Allocation**

- 5.3.1. Following the closure of an Auction, the relevant TSO will determine the type of IP Entry Capacity which has been allocated in accordance with the following Merit Order which is required by the CMP Annex, which is as follows:
  - (a) Unsold Technical IP Entry Capacity;
  - (b) IP Entry Capacity offered for Surrender;
  - (c) UIOLI IP Entry Capacity;
  - (d) Oversubscription Capacity.
- 5.3.2. Where the TSO has allocated any Oversubscription Capacity for a Day at an IP, it may inform Shippers that it has done so.
- 5.3.3. For the purpose of correctly accounting for revenues collected, the TSO will identify to which Shipper Oversubscription Capacity has been allocated.

## **6. Buybacks**

### **6.1. Buyback Process – When will it be used?**

- 6.1.1. Where a TSO has allocated Oversubscription Capacity in respect of a Gas Day, that TSO may purchase IP Entry Capacity from Shippers in accordance with this OS Scheme and the relevant TSO's Network Code.
- 6.1.2. Where a TSO intends to commence offering Oversubscription Capacity, it shall also notify Shippers whether the buyback process will be conducted using PRISMA or using the TSOs own IT Systems. The TSO may update this information from time to time by notifying Shippers in writing.
- 6.1.3. Whether it is necessary to purchase IP Entry Capacity from Shippers shall be determined by the relevant TSO in accordance with the remaining provisions of this clause 6.

### **6.2. Determining the Potential Requirement for Buyback**

- 6.2.1. The relevant TSO shall monitor technical and operational factors before and during each Gas Flow Day including but not limited to the following:
  - (a) the prevailing operational conditions;
  - (b) aggregate IP Entry Nominations and VRF IP Exit Nominations at the relevant IP;
  - (c) agreed profiles;
  - (d) current metered flows (within-day);
  - (e) weather forecasts;
  - (f) any extenuating circumstances which the TSOs may be aware of which lead it to believe that the IP Nominations or metered flows at any given time may be artificially low (or high).
- 6.2.2. The relevant TSO may initiate the buyback process where it considers it appropriate to do so in order to maintain system integrity.
- 6.2.3. Before initiating the buyback process, the TSO shall consider whether there are other operational or commercial means of maintaining the integrity of the system in a more cost-efficient manner.
- 6.2.4. In making this determination, the TSO shall, where possible, prioritise the application of the buyback process over the use of Flow orders or any other constraint management measures, where the TSO reasonably believes that the purchase of capacity will effectively maintain system integrity.

### **6.3. Buyback Quantity Required**

- 6.3.1. In the event of a requirement to purchase IP Entry Capacity, the relevant TSO shall determine the amount of capacity which it will endeavour to purchase, and the timescales within which it requires Buyback Offers to be received.

### **6.4. Buyback Process**

#### ***Advance Buyback Agreements***

- 6.4.1. A TSO may at any time decide to conduct a public tender process for Advance Buyback Agreements in respect of the relevant IP, in which all Shippers will be invited to participate.

#### ***On the Day Buyback Process***

- 6.4.2. Where a TSO determines there is a requirement to purchase IP Entry Capacity, the relevant TSO shall issue a Buyback Invitation to Shippers at the IP in accordance with its Network Code.
- 6.4.3. After the time period for submission of Buyback Offers, the TSO will prepare a list of Buyback Offers received either in response to the Buyback Invitation or via Advance Buyback Agreements
- 6.4.4. Buyback Offers shall be considered and accepted by the relevant TSO in accordance with its Network Code, provided always that a TSO shall not purchase IP Entry Capacity to the extent the cost of such purchase would exceed the applicable Buyback Cap.
- 6.4.5. Where there are insufficient funds within the relevant Buyback Cap to fund the required quantity of IP Entry Capacity buyback in respect of an IP, the TSO will not undertake any further buybacks.

#### ***Buyback Cap***

- 6.4.6. In respect of each IP the relevant TSO shall, before the start of month M, calculate the cash amount (the Buyback Cap) which shall be available to the TSO to purchase IP Entry Capacity in respect of Day D (in month M).

The “**Buyback Cap**” shall be the value in pounds of the sum of the OS Revenue M – 1, the Net OS Revenue M – 2 and the Net OS Revenue M – 3 where:

- OS Revenue M – 1 means the amount receivable in respect of Oversubscription Capacity allocated in respect of each Day in M – 1;
- Net OS Revenue M – 2 means the amount receivable in respect of Oversubscription Capacity allocated in respect of Days in M – 2 less any amount payable out of such revenue to fund the purchase of capacity in M – 1; and
- Net OS Revenue M – 3 is the amount receivable in respect of Oversubscription Capacity allocated in respect of days in M – 3 less the amount payable out of such revenue to fund the purchase of Capacity in M – 1 and M – 2.

- 6.4.7. The calculation of the Buyback Cap is illustrated in Appendix 2.

- 6.4.8. The TSO may update the method for calculating the Buyback Cap, for example to include OS revenues generated from the sale of OS Capacity within the month M, should they consider it appropriate to do so. In this circumstance, the TSO shall inform Shippers in advance of the change of methodology, giving as much notice as is practicable.

***Buyback Notifications***

- 6.4.9. The TSOs shall accept Buyback Offers and issue Buyback Notifications in accordance with their respective Network Codes.

## **7. OS Charging Statement**

- 7.1.1. The Licences of the TSOs oblige them to publish an OS Charging Statement prescribing the methodology for determining the charges:
- (a) payable by Shippers for Oversubscription Capacity; and
  - (b) payable to Shippers for capacity purchased by the TSOs in accordance with this OS Scheme and the relevant Network Code.
- 7.1.2. Oversubscription Capacity will be made available as IP Entry Capacity pursuant to the TSO's Network Codes, and the price payable by Shippers for Oversubscription Capacity shall be the same as the applicable price set by the relevant (Day Ahead or Within Day) Auction for IP Entry Capacity.
- 7.1.3. Prices for IP Entry Capacity are derived from the Forecast Postalised Annual Capacity Charge (as defined in the Licences) using monthly multipliers and set as the NI Reserve Price in Auctions for IP Entry Capacity. The method for determining prices and multipliers are shown in the Gas Transmission Charging Methodology Statement published on the TSO's websites, using data from the Gas Product Multipliers and Time Factors Table published by the Authority. The actual price paid for IP Entry Capacity on any Day may vary from the NI Reserve Price depending on the Auction outcome.
- 7.1.4. Commodity Charges will apply as normal in accordance with the applicable Network Code.
- 7.1.5. The charge payable by the relevant TSO for capacity purchased in accordance with this OS Scheme and the applicable Network Code, shall be as determined in accordance with any applicable Advance Buyback Agreement or Buyback Offers subject in all cases to the Buyback Cap as set out in this document.



## **8. OS Scheme Incentive – Revenue Treatment**

### **8.1. Introduction**

- 8.1.1. The OS Scheme is designed to incentivise the TSOs to make Oversubscription Capacity available and provide a means of sharing the excess of the revenues received as a result of the allocation of Oversubscription Capacity over the costs of buy-backs between Shippers and the relevant TSO.
- 8.1.2. PTL shall calculate and account for revenues and costs arising from the OS Scheme in respect of Moffat Entry Point and GNI (UK) shall calculate and account for revenues and costs arising from the OS Scheme in respect of South North Entry Point.

### **8.2. OS Revenues Handling**

- 8.2.1. The relevant TSO shall invoice Shippers utilising the relevant IP on a monthly basis in accordance with their respective Network Codes.
- 8.2.2. The relevant TSO shall identify the revenues payable for IP Entry Capacity which are attributable to the allocation of Oversubscription Capacity, and ensure these revenues are attributed to its Postalised Network Incentive Scheme Bank Account in accordance with its Network Code.

### **8.3. Incentive Scheme Costs and Payments**

- 8.3.1. Where in accordance with this OS Scheme there is a requirement to buy back capacity in relation to Moffat Entry Point, it shall be paid for with funds attributable to the PTL Postalised Network Incentive Scheme Bank Account, up to the level of the Buyback Cap described in 6.4.6 above.
- 8.3.2. Where in accordance with this OS Scheme there is a requirement to purchase buy back capacity in relation to South North Entry Point, it shall be paid for with funds attributable to the GNI (UK) Postalised Network Incentive Scheme Bank Account, up to the level of the Buyback Cap described in 6.4.6 above.
- 8.3.3. All payments shall be made in accordance with the relevant TSOs Postalised Network Incentive Payments Procedure.
- 8.3.4. No other costs shall be paid for from the revenues attributable to the Postalised Network Incentive Scheme Bank Accounts.
- 8.3.5. The calculation of the OS Revenues shall be completed by 1 February in respect of the previous Gas Year. This is required as the Buyback Caps to be determined for October, November and December of Gas Year Y+1 must be closed before the net OS revenues for Gas Year Y is finalised.

### **8.4. OS Revenues Sharing**

#### ***Sharing Proportions between Shippers and TSOs***

- 8.4.1. Any excess OS Revenues remaining after the end of Gas Year Y in respect of the South North IP shall be shared between the Shippers and GNI (UK) on a 75:25 basis; the 75% share attributable to Shippers ("the **Shipper's Aggregate SN Share**") shall be shared among Shippers in accordance with 8.4.4 and the 25% share attributable to GNI (UK) shall be the "**GNI (UK) SN Share**".
- 8.4.2. Any excess OS Revenues remaining after the end of Gas Year Y in respect of the Moffat IP shall be shared between the Shippers and PTL on a 75:25 basis; the 75% share attributable to Shippers ("**the Shipper's Aggregate Moffat Share**") shall be shared amongst Shippers in accordance with 8.4.5 and the 25% attributable to PTL shall be "**the PTL Moffat Share**".
- 8.4.3. Payments to Shippers of such excess OS Revenues are described in section 12 of the Network Codes as "Incentive Scheme Payments".

#### ***Sharing Proportions amongst Shippers***

- 8.4.4. For South North IP, after 1 February in the following Gas Year Y+1, Shippers shall be allocated a proportion of the 'Shipper's Aggregate SN Share' pro-rata to the sum of their Final IP Entry Allocations at South North Entry Point for the relevant Gas Year Y.
- 8.4.5. For Moffat IP, after 1 February in the following Gas Year Y+1, Shippers shall be allocated a share of the 'Shippers' Aggregate Moffat Share' pro-rata to the sum of their Final IP Entry Allocations at Moffat Entry Point for the relevant Gas Year Y.

#### ***'Licensees OS Revenues Share'***

- 8.4.6. For the purposes of the GNI (UK) Licence, the Licensees OS Revenues Share for GNI (UK) is the GNI (UK) SN Share.
- 8.4.7. For the purposes of the PTL Licence, the Licensees OS Revenues Share for PTL is the PTL Moffat Share.

## **9. OS Scheme Invoicing and Payments**

### **9.1. Oversubscription Capacity Charges and Buyback Payments**

9.1.1. The relevant TSO shall include amounts payable by or to Shipper in respect of:

- (a) Oversubscription Capacity (which shall be included in the Monthly Postalised Daily IP Entry Capacity Payment)
- (b) Buyback payments
- (c) Incentive Scheme Payments

on the PS Transmission Invoice, pursuant to section 12 of the relevant Network Code, and handle revenues and payments in accordance with section 12.17 of the relevant Network Code.

### **9.2. Incentive Scheme Payments to TSOs**

9.2.1. Incentive Scheme Payments shall be paid to the relevant TSO in accordance with the Postalised Network Incentive Scheme Payments Procedure.

**OTHER CMP MECHANISMS**  
**METHODOLOGY STATEMENT**

## **10. IP Entry Capacity Surrender**

- 10.1.1. Where the Activation Test has been passed, or the TSOs otherwise decide to activate the Surrender Mechanisms in respect of an IP in accordance with section 4.2, the relevant TSO shall inform Shippers, in accordance with the Network Codes section T9.2.1 (b), of the date at which they will be able to commence surrender of IP Entry Capacity in accordance with section 1A.17 of the Network Codes.
- 10.1.2. Thereafter, the rules in section 1A.17 of the Network Codes shall apply.

### ***Explanation of the Surrender rules in the Network Codes***

- 10.1.3. Shippers can offer to surrender capacity in either the Annual, Quarterly or Rolling Monthly IP Entry Capacity Auctions, and may place up to 10 Surrender Offers in each or any of those Auctions.
- 10.1.4. Surrender Offers must be valid, which means that the Shipper must have enough Registered IP Entry Capacity and otherwise meet the criteria set down in the Network Codes. For example the offer must be for IP Capacity that is for (at least) the relevant IP Capacity Period of the Auction). Annual IP Entry Capacity may be offered in the Quarterly or Rolling Monthly Auctions, and Quarterly IP Entry Capacity can be offered in the Rolling Monthly Auctions. It is not possible to offer Monthly IP Entry Capacity in the longer term auctions.
- 10.1.5. Valid Surrender Offers will be included in the capacity made available in the Auction. Shippers do not set a price for the capacity they wish to surrender. After an Auction has closed the TSOs allocate the Allocable IP Entry Capacity to the winning bids of Shippers in the priority order required by the CMP Annex:
  - (a) Unsold Technical IP Entry Capacity;
  - (b) IP Entry Capacity offered for Surrender;
  - (c) UIOLI IP Entry Capacity;
  - (d) Oversubscription Capacity.
- 10.1.6. Where a Shipper has been allocated surrendered capacity, it will not be aware of its origin, and will simply be charged for the capacity at the Clearing Price of the Auction. The surrendering Shipper does not receive any payment, since it is simply not charged for the surrendered capacity.
- 10.1.7. Valid Surrender Offers may be allocated in whole or in part, and to the extent that they are not allocated to another Shipper in an Auction, the original Shipper still has to pay for the remainder of the capacity which is not accepted for surrender, and retains its rights to use it.
- 10.1.8. If there were to be bundled and unbundled auctions running in parallel, (an unlikely scenario in NI, given that the amount of capacity available upstream generally exceeds the available NI IP Entry Capacity) then it is possible for surrendered capacity to be allocated in either or both auctions.

## 11. Long term Use-it-or-Lose-it

### 11.1. LTUIOLI Commencement

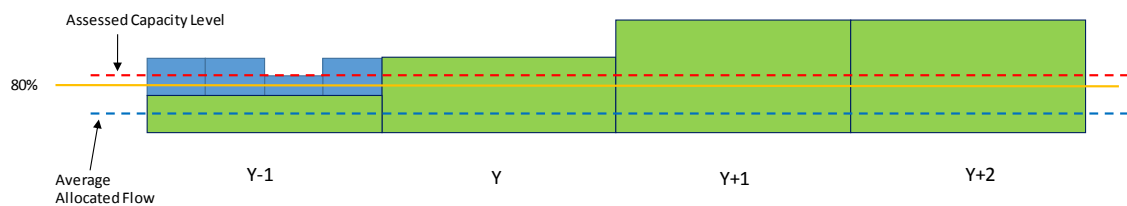
- 11.1.1. Where the Activation Test has been passed, or the TSOs otherwise decide to activate the LTUIOLI Mechanisms in respect of an IP in accordance with section 4.2, the TSOs shall commence monitoring of IP Entry Capacity utilisation in accordance with section 1A.18.2 of the Network Codes.
- 11.1.2. The TSO at the relevant IP shall produce the Usage Reports for that IP, seeking to assess any Underutilisation by a Shipper. In accordance with the Network Codes section 1A.18.2, two reports are to be produced each year (October – March and April – September). The reports shall also include an assessment of the FDA UIOLI criteria as described in section 4.5.5.

### 11.2. Determination of Underutilisation

- 11.2.1. The concept of underutilisation is set out in the CMP Annex (section 2.2.5), which states that capacity is considered to be systematically underutilised in particular *‘if the network user uses less than on average 80% of its contracted capacity both from 1 April until 30 September and from 1 October to 31 March with an effective contract duration of more than one year for which no proper justification could be provided’*.
- 11.2.2. The TSOs are required to offer annual, quarterly, monthly and daily capacity products and it is not possible to buy a single capacity product which has, on its own, an effective duration of more than one year. It is therefore necessary to clarify which type of capacity will be considered by the TSOs in their analysis of underutilisation.
- 11.2.3. Taking into account the long-term purpose of this CMP Mechanism, the TSOs will only assess the utilisation of capacity where a Shipper has been allocated more than one consecutive Annual IP Entry Capacity product, or a series of consecutive IP Entry Capacity products (Annual and Quarterly) for a (net total) quantity of Registered IP Entry Capacity quantity which exceeds 2 years consecutive IP Capacity Period in aggregate, including the monitoring period.
- 11.2.4. IP Capacity which has been assigned to the Shipper (and/or assigned away from the Shipper), in accordance with section 1A.12 of the Network Codes shall be included in the determination in 11.1.5.
- 11.2.5. IP Capacity which has been transferred to the Shipper from another (and/or transferred away from the Shipper to another Shipper) in accordance with section 1A.11 of the Network Codes shall not be included in the determination in 11.1.5.
- 11.2.6. Where a Shipper holds allocated capacity of a relevant effective duration (i.e. exceeding 2 years) as described in 11.1.5 above in any given reporting period, it shall be a ‘LTUIOLI Shipper’ in accordance with section 1A.18 of the Network Codes and the TSO will determine the level of the Shippers Registered IP Capacity for the reporting period, against which utilisation shall be assessed (the “**Assessed Capacity Level**”).
- 11.2.7. Where a Shipper’s Registered IP Capacity is the same quantity throughout the relevant effective duration, this shall be the Assessed Capacity Level. Where a Shipper’s Registered

IP Capacity varies through the relevant effective duration, the minimum level of Registered IP Capacity held consistently throughout the relevant effective duration shall be the Assessed Capacity Level.

- 11.2.8. The TSO shall assess the level of the Shipper’s Final IP Entry Allocations for each day in the relevant reporting period against the Assessed Capacity Level.
- 11.2.9. The TSO shall determine the average of Shipper’s Final IP Entry Allocations during the monitoring period (“**Average Allocated Flow**”). Where the Shipper’s Average Allocated Flow is less than 80% of its Assessed Capacity Level, then the TSO shall determine that Underutilisation has occurred.



*Illustration of a hypothetical profile of Registered IP Entry Capacity purchased in the Y-2 Annual and Quarterly Auctions. Green indicates Annual IP Entry Capacity and Blue indicates Quarterly IP Entry Capacity. The Average Allocated Flow is lower than 80% of the Assessed Capacity Level, so Underutilisation has occurred.*

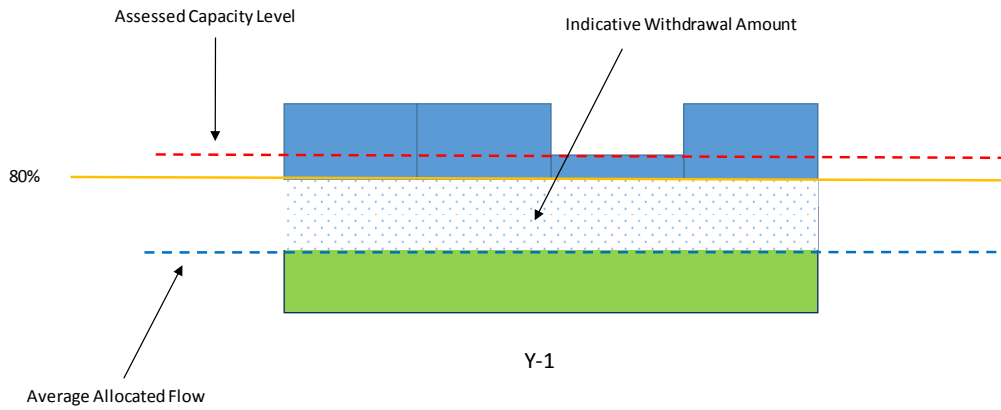
### 11.3. When will capacity withdrawal be considered?

#### 11.3.1. Where:

- (a) Underutilisation has occurred; **and**
  - (b) there has been unfulfilled demand for capacity (i.e. Shippers bid for, but were not able to obtain, capacity in the most recent Annual or Quarterly IP Entry Capacity Auctions);
- then the TSO shall determine how much IP Entry Capacity should be the subject of an Indicative Withdrawal Notice.

#### ***Determining the quantity capacity that should be the subject of an Indicative Withdrawal Notice***

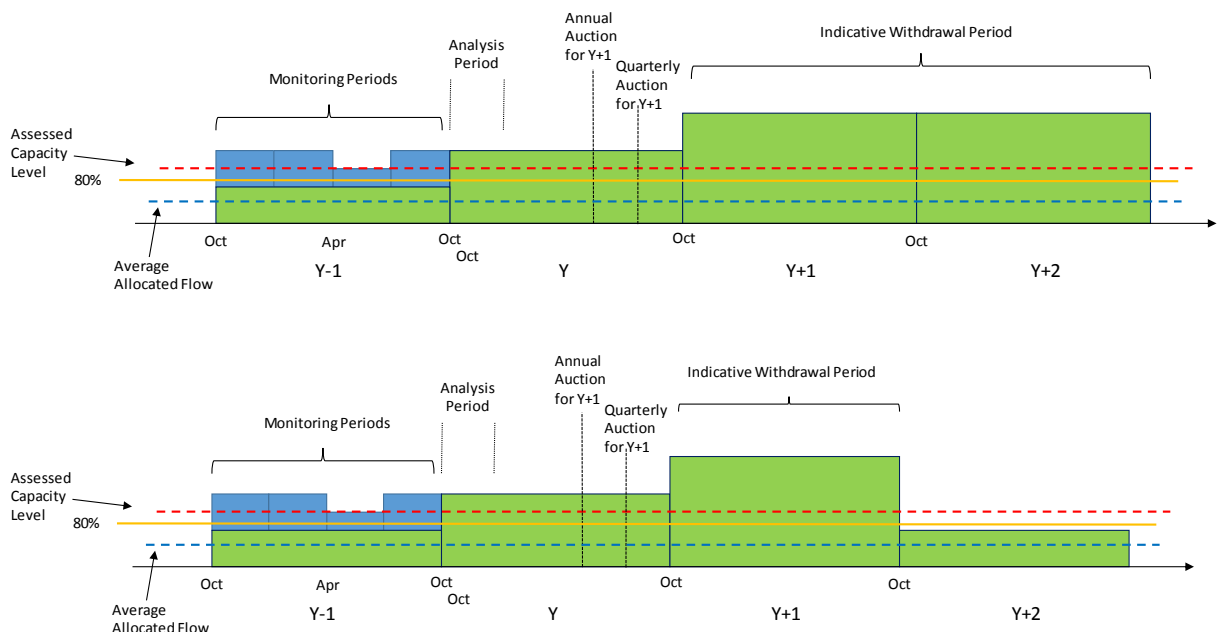
- 11.3.2. Only the capacity which the TSO considers is not being utilised will be the subject of an Indicative Withdrawal Notice. Given that the CMP Annex considers underutilisation to be an issue if flows are lower than 80% of capacity on average, this indicates that only underutilisation below the 80% level is unacceptable. Hence the “**Indicative Withdrawal Amount**” shall be the difference between the Shipper’s Average Allocated Flows and 80% of the Assessed Capacity Level.



*The Indicative Withdrawal Amount is the difference between the Shipper's Average Allocated Flows and 80% of the Assessed Capacity Level.*

### **Determining the period for which capacity should be withdrawn**

11.3.3. The TSO shall also determine the IP Capacity Period for which such capacity should be withdrawn (**"the Indicative Withdrawal Period"**). Capacity which is withdrawn will be offered in the next Annual Auction and, if still unsold, the next Quarterly Auction. The minimum Indicative Withdrawal Period must therefore be the next (whole) gas year. The Indicative Withdrawal Period depends on the level of Registered IP Entry Capacity which is held by the Shipper in subsequent years. Clearly if the Shipper's capacity booking is lower in subsequent years, it does not make sense to withdraw capacity in those years. Therefore, the Indicative Withdrawal Period shall extend to the duration that the Shipper's Registered IP Entry Capacity remains consecutively at the same (or higher) level as the Assessed Capacity Level.





*The Indicative Withdrawal Period will depend on the Shipper's holding in subsequent years. Where a Shipper's purchased capacity is lower in subsequent years (as illustrated in the second diagram), it does not make sense to withdraw capacity in those years.*

#### **11.4. Justifying Underutilisation**

- 11.4.1. In accordance with section 1A.18.5 of the Network Codes, a Shipper in receipt of an Indicative Withdrawal Notice may make a Written Submission (within one month) to the TSO justifying the Underutilisation.

##### ***What constitutes 'Proper Justification'?***

- 11.4.2. Determination of 'Proper Justification' will be entirely within the discretion of the TSO and assessed on a case by case basis, but as guidance, the following circumstances would generally be considered to constitute Proper Justification:

- (a) where capacity has been traded to another Shipper (or surrendered and reallocated) for a period of at least 3 consecutive months;
- (b) where capacity has been offered for trade on the PRISMA platform for a period of at least 3 consecutive months at or below the auction reserve price(s);
- (c) where capacity which has been offered for surrender (but not actually allocated) for a period of at least 3 consecutive months;
- (d) evidence of gas contracts (for example delivery contracts) with third parties.

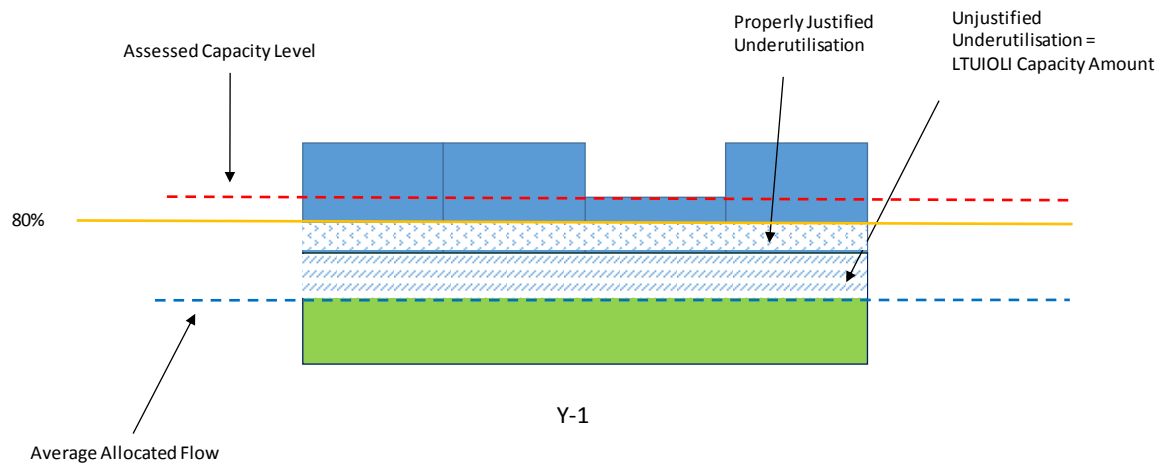
##### ***Consideration of Written Submissions***

- 11.4.3. The TSO shall consider any Written Submission and where it is satisfied that Proper Justification has been given, it shall inform the Shipper accordingly within 10 days.

#### **11.5. Where Withdrawal is still Required**

##### ***Determining the LTUIOLI Capacity and the IP Capacity Period that should be the subject of an Intended Withdrawal Notice***

- 11.5.1. Where, following consideration of Written Submissions, the TSO believes that some or all of the Underutilisation has not been properly justified, it will determine the amount of capacity which is to be withdrawn (the LTUIOLI Capacity, as defined in the Network Codes section 1A.18.7).



*The LTUIOLI Capacity is only the part of the Underutilisation which cannot be properly justified by the Shipper, in the view of the TSO.*

- 11.5.2. The TSO will also confirm the relevant IP Capacity Period for which the LTUIOLI Capacity is to be withdrawn, which shall extend to the full (consecutive) duration for which the Shipper holds the relevant Assessed Level of Capacity.
- 11.5.3. Shippers making a Written Submission may be able to justify capacity utilisation up to a level higher than 80% of the Assessed Capacity Level, but still not equal to their entire Assessed Capacity Level, or perhaps for only part of the IP Capacity Period for which the capacity is to be withdrawn. In this case, only the amount of capacity and the IP Capacity Period which cannot be properly justified will be the LTUIOLI Capacity.
- 11.5.4. The TSO will then provide to the Shipper an Intended Withdrawal Notice, in accordance with the Network Codes section 1A.18.7, confirming the LTUIOLI Capacity and the relevant IP Capacity Period.

## **11.6. Referral to the Authority**

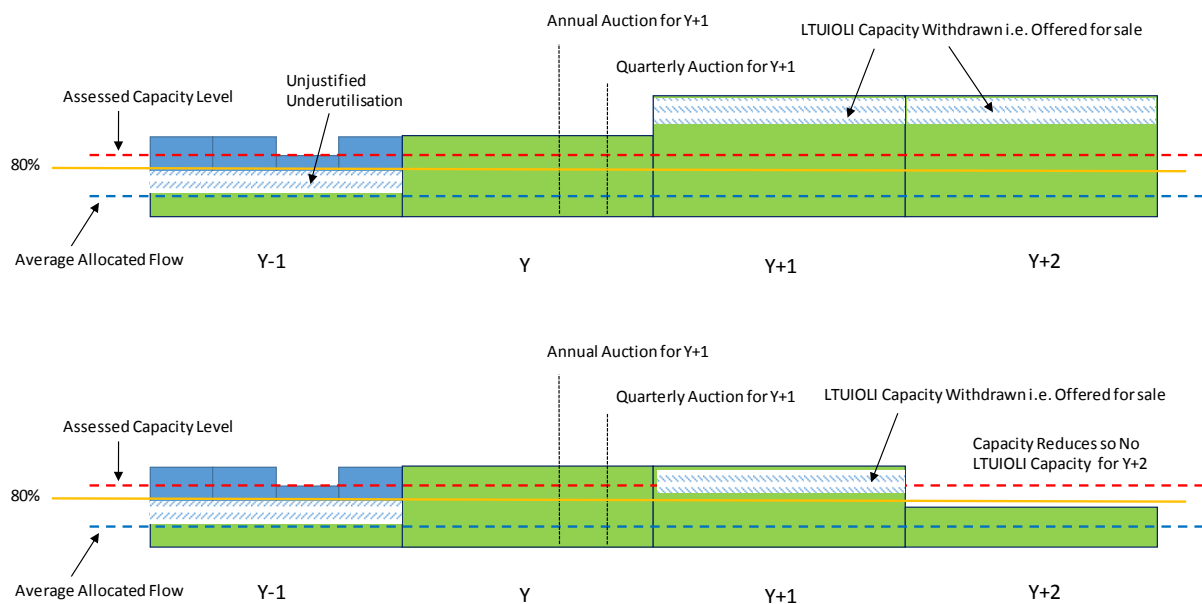
- 11.6.1. Where a Shipper does not agree with the decision of the TSO, it can refer the decision to the Authority within 2 weeks of receipt of the Intended Withdrawal Notice, in accordance with Network Codes section 1A.18.8. The Authority will, entirely at its own discretion, make the final decision as to whether capacity should be withdrawn, and/or make any adjustment to the Intended Withdrawal Amount and the IP Capacity Period that it considers appropriate, and instruct the TSO accordingly.

## **11.7. Withdrawal of IP Entry Capacity**

- 11.7.1. An Intended Withdrawal Notice becomes effective where:
  - (a) a Shipper has not provided any Written Submission; or
  - (b) the TSO has considered a Written Submission, but concluded that some or all of the withdrawal is still required, and the Shipper has not referred the decision to the Authority; or

- (c) the Authority has considered a referral by a Shipper, but concludes that proper justification has not been provided for all or part of the LTUIOLI Capacity and/or relevant IP Capacity Period and instructed the TSO accordingly.

11.7.2. Where an Intended Withdrawal Notice becomes effective, the TSO shall offer the LTUIOLI Capacity as Allocable IP Entry Capacity in the first available Annual Yearly Auction for as many years as is applicable. If some or all of the LTUIOLI remains unsold in that auction, then the amount of the LTUIOLI Capacity for the relevant IP Capacity Period, i.e. Y+1 shall be offered, in quarters, in the next Annual Quarterly Auction for Y+1. Unsold LTUIOLI Capacity shall be re-offered in the Auctions in subsequent years for as long as is applicable.

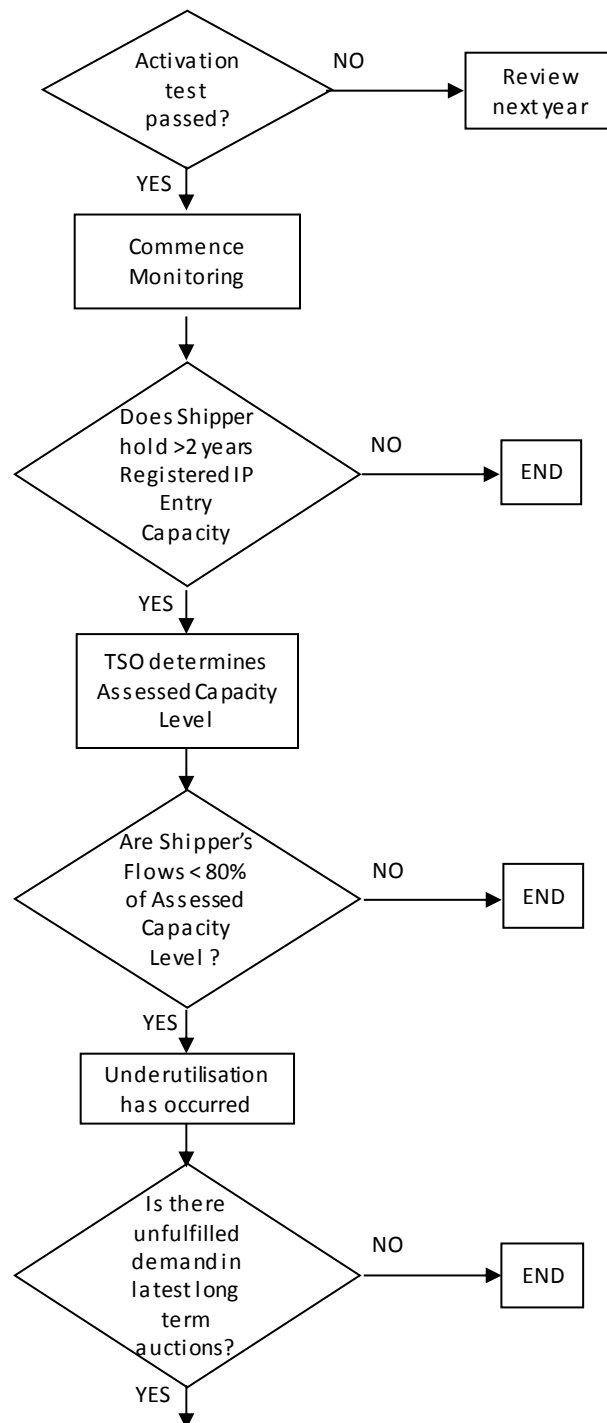


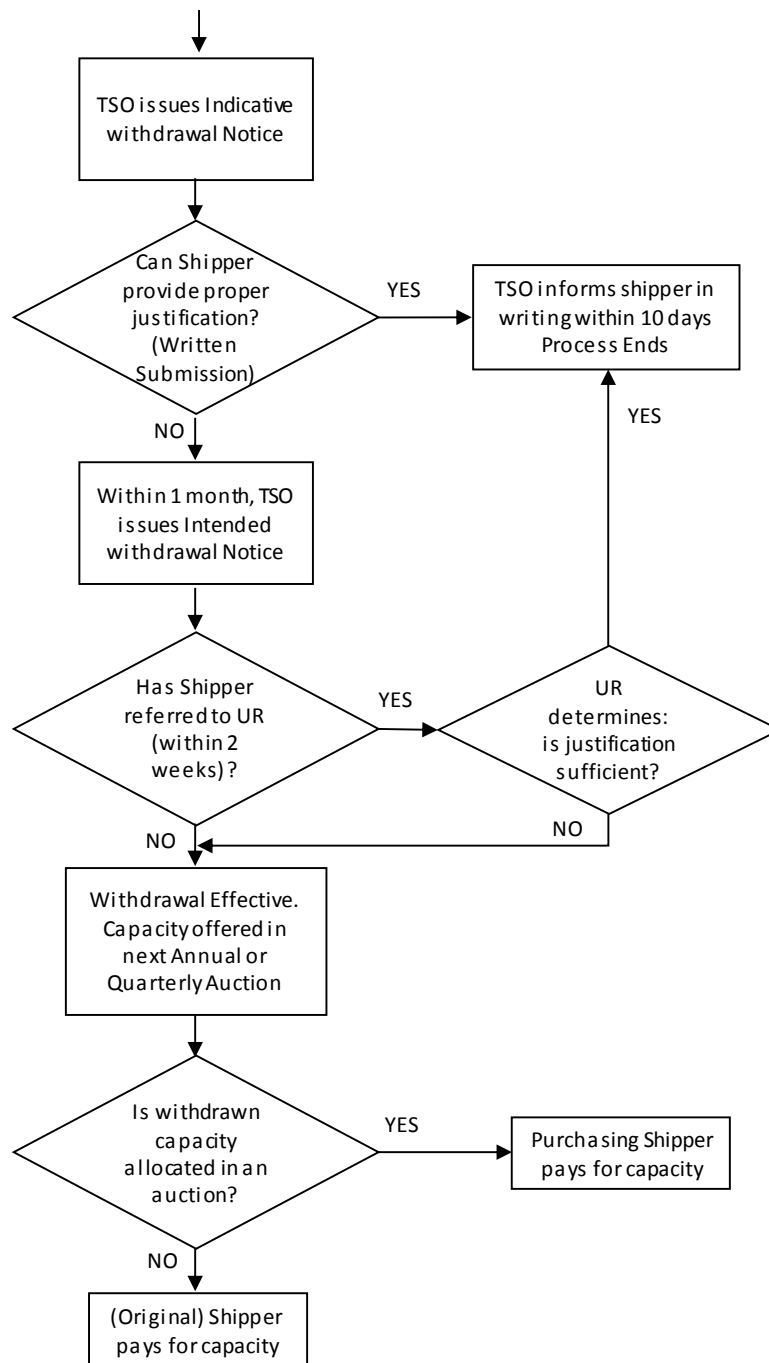
- 11.7.3. The Shipper shall only be relieved of its obligation to pay for (and rights to use) the LTUIOLI Capacity if some or all of it is allocated in one of these auction processes.
- 11.7.4. If LTUIOLI Capacity is not reallocated, then the original Shipper must pay for the capacity in full, and it also keeps its rights to use such capacity. If the LTUIOLI Capacity is reallocated in part, then the original Shipper must still pay for (and may still use) the remainder.

### ***Bundled and Unbundled Capacity***

- 11.7.5. It should be noted that the LTUIOLI rules apply regardless of whether IP Capacity is bundled or unbundled, and LTUIOLI Capacity may be either unbundled or bundled, or a combination of both. When allocating LTUIOLI Capacity in an auction, any unbundled LTUIOLI Capacity will be treated as being allocated before any bundled IP Entry Capacity.

## 11.8. LTUIOLI Process Summary Diagram





## APPENDIX 1 – Buyback Cap Calculation Examples

Where a buyback is required in any given month M, then this will be funded in the following order:

- Oldest month 1<sup>st</sup> (M-3),
- then from the 2<sup>nd</sup> oldest month (M-2), and
- lastly from the month immediately prior to the month in which the buyback is being made (M-1)

The following example illustrates how the 'Cap' will be calculated and roll-forward:

<u>Example Starts Assuming Month M is Oct - Calculate 'Buyback Cap' for October</u>							
	Closed Months		Available to Fund BB in Oct				
	May	Jun	Jul	Aug	Sep	Total	Oct
	M -5	M -4	M -3	M -2	M -1		Month (M)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
OS Sales	6	15	10	15	23	48	5
Revenue used to BB	-2	-3	0	-5	0	-5	0
Net OS Revenues	4	12	10	10	23	43	5
Total 'Buyback Cap' available to fund buybacks in October					43		
Assume Cost of Buyback Capacity Required					12		
Buyback Funding Order							
1st			-10				
2nd				-2			
3rd					0		
Total					-12		
The Net OS Revenue in the Closed Months is all available for Sharing b/w TSO's & Shippers: In this example £16k being the sum of May & Jun is available.							

<u>Roll Forward Example by 1 Month - New 'Buyback Cap' Calculated for November</u>								
	Closed Months			Available to Fund BB in Nov				
	May	Jun	Jul	Aug	Sep	Oct		Nov
	M -6	M -5	M -4	M -3	M -2	M -1	Total	Month (M)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
OS Sales	6	15	10	15	23	5	43	8
Revenue used to BB	-2	-3	-10	-7	0	0	-7	0
Net OS Revenues	4	12	0	8	23	5	36	8
Total 'Buyback Cap' available to fund buybacks in November							36	
Assume Cost of Buyback Capacity Required							20	
Buyback Funding Order				1st	-8			
				2nd		-12		
				3rd			0	
				Total			-20	
The Net OS Revenue in the Closed Months is all available for Sharing b/w TSO's & Shippers: In this example £16k being the sum of May - Jul is available.								

<b><u>Roll Forward Example by another Month - New 'Buyback Cap' Calculated for December</u></b>									
<b>Closed Months</b>					<b>Available to Fund BB in Dec</b>				
May	Jun	Jul	Aug	Sep	Oct	Nov	Total	Dec	Month (M)
M -7	M -6	M -5	M -4	M -3	M -2	M -1	£'000	£'000	£'000
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
OS Sales	6	15	10	15	23	5	8	36	18
Revenue used to BB	-2	-3	-10	-15	-12	0	0	-12	0
Net OS Revenues	4	12	0	0	11	5	8	24	18
Total 'Buyback Cap' available to fund buybacks in December								24	
Assume Cost of Buyback Capacity Required								30	
Limit is set at 'Buyback Cap': Only £24k worth of Capacity bought back									
Buyback Funding Order				1st	-11				
				2nd		-5			
				3rd			-8		
				Total			-24		
The Net OS Revenue in the Closed Months is all available for Sharing b/w TSO's & Shippers: In this example £16k being the sum of May - Aug is available.									

<b><u>Roll Forward Example by another Month - New 'Buyback Cap' Calculated for January</u></b>										
<b>Closed Months</b>					<b>Available to Fund BB in Jan</b>					
May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total	Jan	Month (M)
M -8	M -7	M -6	M -5	M -4	M -3	M -2	M -1	£'000	£'000	£'000
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
OS Sales	6	15	10	15	23	5	8	18	36	9
Revenue used to BB	-2	-3	-10	-15	-23	-5	-8	0	-36	0
Net OS Revenues	4	12	0	0	0	0	0	18	0	9
Total 'Buyback Cap' available to fund buybacks in January								18		
Assume Cost of Buyback Capacity Required								4		
Buyback Funding Order				1st	0					
				2nd		0				
				3rd			-4			
				Total	Total		-4			
The Net OS Revenue in the Closed Months is all available for Sharing b/w TSO's & Shippers: In this example £16k being the sum of May - Sep is available.										