Determining Available VRF IP Exit Capacity

Increasing the available VRF capacity is welcomed and will improve the overall liquidity of the market and facilitate trade between hubs. This benefits all market participants, including producers of renewable gas, by creating a more integrated and flexible market. feS acknowledges the rationale behind using a dynamic approach to determine available VRF IP Exit capacity based on forward flow and demand. While this provides flexibility, feS believes it is not necessary for the Northern Ireland market and may introduce uncertainty that could disrupt biomethane production, which relies on stable and predictable capacity.

The dynamic model, which updates capacity based on real-time demand, could create challenges for Shippers who depend on consistency, particularly biomethane producers. Fluctuations in capacity may hinder their ability to secure sufficient capacity in advance, leading to operational difficulties. Additionally, the complexity of the IT systems required for real-time updates could introduce integration issues, maintenance challenges, and errors in capacity allocation.

The Over-Nomination process, although offering flexibility, could lead to congestion and competition for capacity, resulting in delays or reductions. This may impact Shippers relying on additional capacity for critical needs. Furthermore, short notice interruptions and the 45-minute lead time may not allow enough time for Shippers to adapt.

While the dynamic method may improve operational efficiency in certain contexts, it does not seem appropriate for VRF Northern Ireland, which is most likely to be used by for biomethane injection, where stable, predictable capacity is crucial. The risks associated with this approach, including capacity uncertainty, Over-Nominations, and IT system complexity, must be carefully considered to ensure the final methodology meets the needs of users, particularly those with consistent demand, like biomethane producers.

Registration

feS appreciates the need for there to be physical forward flow nominations in order to make a VRF product available at the South North IP. Despite the real potential of capacity constraints at Moffat, shippers have not utilised the South North IP for NI Entry due to the higher associated tariffs. feS is an advocate for development of the biomethane in N.I. and have concerns regarding any features of the marketplace that may prohibit development. The proposal to separate applications for registration at the South North IP Exit Point from those at the IP Entry Point in relation to the VRF service is intended to ensure the registration process aligns with the practical realities of the forward flow and capacity requirements necessary for providing the VRF service, but in practice there are likely to be different shippers applying for entry and exit and this process will make it difficult for shippers wanting to exit gas virtually to gauge likelihood of forward flows. To better forecast VRF demand, it is essential that the registration process at the Exit Point be more closely integrated with the overall forward flow nominations process.

feS also have concerns about the tight timescales for developing the IT systems needed to provide VRF services at the South North IP. Early expressions of interest from Shippers may not provide

enough actionable data to trigger IT development, creating a potential gap between interest and system readiness. The consultation paper requires 60-day forward flow forecasts before IT development begins, with a minimum 12-month lead time for implementation. This extended timeline could lead to delays, impacting Shippers and the market.

feS suggests preplanning the necessary IT infrastructure to enable timely VRF service provision at the end of the required rolling 60-day period, avoiding disruptions for Shippers and supporting biomethane production in Northern Ireland. While feS understands the Transporter's caution in ensuring demand before IT investment, more clarity is required on the monitoring phase and potential interim solutions to avoid delays. The complexity of separate registration processes and the practical challenges Shippers face in meeting these requirements highlight the need for alternative approaches and stakeholder engagement to meet evolving VRF needs.

Methods for offering and allocating VRF IP Exit Capacity

The proposed methods for allocating VRF IP Exit Capacity raise concerns regarding uncertainty, predictability, and timeliness, particularly for biomethane producers. The reliance on Interruptible VRF capacity based on estimated summer demand and real-time forward flow introduces unpredictability, making it difficult for producers to secure stable, reliable capacity. The tight timelines for day-ahead and within-day nominations, along with the complexity of the Over-Nomination process, could disrupt operations and create inefficiencies.

Biomethane producers, who require steady, firm capacity for continuous production, may face challenges with the current system's fluctuating capacity and frequent adjustments. The reliance on PRISMA Auctions and the potential for capacity to be overbooked further complicates matters, especially if producers are unable to secure capacity early enough. The 45-minute lead time for curtailment notifications may also be insufficient for producers to adjust operations.

Overall, the proposed VRF service allocation methods may hinder the growth of biomethane production in Northern Ireland, as producers require more certainty and reliability in capacity availability for efficient operations. The system’s volatility, administrative burden, and limited flexibility could present barriers to long-term investment and planning for biomethane producers. Clearer, more stable allocation methods and longer-term capacity products would be beneficial for supporting the sector's development. Daily products with the associated daily pricing will be more expensive overall for those seeking to virtually ship gas for trade outside of Northern Ireland. The daily mechanism seems superfluous for actual requirements and longer term products using an annual rate suited to the stable capacity requirements production of biomethane is likely to generate is more likely to encourage growth in this aspect of the renewable sector.

Interruption of VRF IP Exit Capacity

feS accepts that while the likelihood of interruptions will be in very specific circumstances, and generally outside of the control of the Transporter, the proposed 45-minute lead time for notification of VRF IP Exit Capacity interruptions is relatively short. From a biomethane producer’s perspective, this could be a challenge, as processes will rely on stable and predictable capacity for the

transportation of the product. Any interruption in VRF IP Exit Capacity could impact the ability to deliver gas to the market or meet contractual obligations. Therefore, it is crucial that any interruptions be as predictable as possible, with advance notifications whenever feasible, and a clear methodology for the curtailment process. The unbundled and interruptible nature of the VRF IP Exit Capacity adds another layer of uncertainty. While these features are typical for flexible capacity products, they could be seen as a disadvantage for Shippers that require more firm and reliable capacity, such as Biomethane producers who are likely to have a steady and flat load. The risk of interruptions, particularly in times of high demand or system constraints, may deter some Shippers from fully relying on the product, as they could face operational disruptions and higher costs in adjusting their nominations at short notice. It is important to ensure that mechanisms are in place to minimize such interruptions or provide early warning if reverse flow capacity might be unavailable.

The Last In First Out approach to curtailment seems fair, though in practical application there may be risk of any such curtailment disproportionately impacting smaller Shippers. The proposal to apply a pro-rata reduction for Nominations with the same timestamp is fair, as it ensures that Shippers receive a proportional share of the remaining available capacity. Ensuring that a Shipper's CQs (Contractual Quantities) are not reduced below their deemed VRF flow at the effective time of interruption is an important safeguard. This helps ensure that Shippers who rely on a specific level of capacity to maintain their operations are not unfairly penalised.

Flexibility in lead times for notifications and clarity on the impact for smaller or newer market participants, such as biomethane producers, is a key consideration in ensuring minimal disruptions to producers' operations while maintaining the integrity of the gas transmission system. We welcome confirmation that Overrun charges will not apply to VRF.

Tariff for VRF IP Exit Capacity

Setting tariffs at levels that encourage the efficient use of available VRF capacity is crucial. The VRF tariff should align with the broader objective of enhancing biomethane connections while ensuring affordability for all users. Currently, the VRF tariff is set very low (0.0001p/kWh), and operators interested in the VRF service have based their forward investment calculations on this rate. A significant increase in the tariff, as proposed in the consultation, could hinder development in this sector. Any changes to the regime should consider the broader policy context and promote the growth of the local biomethane market. Developments within the gas regime must facilitate biomethane integration into the network, enhance the overall energy system, and drive sustainability. In the absence of supportive policies and incentives, network operators must ensure that any changes to the regime do not impose additional barriers to market development.

feS welcome the application of an ex-ante approach to discounts and tariff setting, this is preferable to ex-post. The ex-ante method offers greater clarity and stability for shippers, particularly smaller participants, and eliminates the uncertainty and potential higher costs of ex-post compensation. This ensures a more predictable and transparent tariff-setting process, which is crucial for all shippers.

In conclusion, there is a critical need for certainty, reliability, and predictability in the VRF service to support the stable operation and growth of biomethane production. Biomethane producers require a

firm capacity service rather than an interruptible one to ensure uninterrupted operations and meet production demands. The current barriers to market access within Northern Ireland, coupled with a lack of incentives, suggest that exporting gas outside of NI via VRF is the most profitable option for biomethane producers. As the energy transition accelerates, with renewable gases like biomethane becoming more important for sustainability, the approach to VRF IP Exit Capacity will be a critical element in determining the viability of biomethane production.

While the necessity of setting a higher VRF tariff to ensure the financial sustainability of the transmission network is understood, this could pose a significant barrier to service use, impacting the commercial feasibility for producers. Any increases in costs should be carefully weighed against the potential negative impacts on trade with Great Britain (GB) and the Republic of Ireland (ROI). This approach would promote the growth of the renewable gas sector and facilitate its contribution to achieving climate goals.

Regards,

Terry Rice