Initial Modification Report No.17

Introduction of Mechanism to Enable Booking of Exit Capacity for Commissioning

2nd May 2023

Please find below Initial Modification Report No.17 to the NI Network Gas Transmission Code prepared by the Transporter, as required under section A3 of the Code Modification Rules.

Part 1 contains the details of the Proposed Modification as submitted by the Proposer.

Part 2 contains the Transporter's opinion on the Proposed Modification and consultation details.

Part 1 – Proposed Modification

A Modification Number

17

B Modification Title

Introduction of Mechanism to Enable Booking of Exit Capacity for Commissioning

C Modification Proposer

EP Ballylumford

D Modification Representative

Harry Molloy (h.molloy@tynaghenergy.ie)

E Date Submitted to the Transporter

23rd March 2023

F Proposed Implementation Date

As soon as possible.

G Description of the nature and purpose of the modification

During commissioning, a power station will be required to utilise Exit Capacity when it is not commercially available. In addition, to meet Connection Agreement / Grid Code requirements, such power station will be tested at its maximum rated capacity for an extended period - normally

at least 24 hours. This is the highest load factor the power station is ever likely to be dispatched to. Post commissioning, there may be a significant period before the power station is declared commercially available.

Under the current Code Exit Capacity arrangements, a power station would have to book Exit Capacity from the 1st day of the month gas was first utilised for commissioning testing until the end of the relevant Gas Year at a rate equal to its maximum technical capacity. Additionally, the power station would be required to pay for an equal level of capacity for all preceding months of the year, due to the 'ratchet mechanism'. This would be significantly in excess of the maximum capacity needed for normal operations. The operator of the power station would therefore incur a very significant cost at a time when the power station was not commercially available and therefore not in receipt of income.

The modification proposal would be to introduce a new form of Exit Capacity in the Code that would:

- be available to purchase on a daily basis at a daily price.
- not be subject to Exit Capacity Ratchet.
- only be applicable for the commissioning of a power station up to the point when the power station is declared fully commercially available.

EP Ballylumford suggest the daily price is calculated as the Forecast Postalised Annual Capacity Charge / 365.

H How the modification better facilitates the relevant objective

The Relevant Objective (Condition 2.4D.2 of the Transporter Licences) will be better facilitated by the NI Network Gas Transmission Code as a result of this modification. This change will support the efficient and economic development of the NI Network and promote effective competition by removing economic barriers to potential new Shippers.

I The clauses of the NI Network Gas Transmission Code that require amendment

This section sets out EP Ballylumford's proposed Code text with associated commentary as provided by EP Ballylumford.

This change will require a number of changes to the Code. Specifically, Section 3 – Exit Capacity will be updated to include a definition for the Commissioning product, and related sections of the Code will be amended to reflect this.

It is proposed that a new definition is included to define the Commissioning Period, over which this product will be available to Shippers. The relevant location for this definition appears to be Section 3.1 of the Code. It is thus proposed that the following new definition is included in this Section:

3.1.9 In this Code,

(a) "**Commissioning**" means in respect of a power station, means the completion of such procedures and tests in relation to that power station as constitute, at the time they are undertaken, the usual industry standards and practices for commissioning that type of power station in order for that power station to become commercially operational, including testing of the power station itself, and testing of the power station compatibility with the relevant electricity network;

(b) "**Commissioning Period**", refers to the period of time during which a power station, associated with a registered Power Station Exit Point, is undergoing its pre-operational testing. For avoidance of doubt testing includes plant Commissioning, and any connection-related testing which a power station is required to carry out pursuant to the relevant electricity grid code. The Commissioning Period will begin on the day that a power station begins this testing, and end on the day that the power station receives an Operational Certificate as per the Capacity Market Code;

Section 3.2 details the process for Indicative Applications for Exit Capacity. From our reading of the Code, it appears that no amendments are required to this Section, and that the Commissioning Exit Capacity could be applied for under the current drafting of this Section.

Section 3.3 outlines the requirements for Exit Capacity Applications. It is possible that a minor change be applied to this Section for clarity, although it may be possible for Commissioning Exit Capacity to be booked under the current drafting of this Section. As such, we welcome feedback from the Transporter on the change proposed below:

3.3.2 An application for Exit Capacity shall be made in the Prescribed Form (an "**Exit Capacity Application**") and shall specify:

[….]

(g) whether or not the Exit Capacity will be used for the purposes of supplying gas to a power station during the relevant power station's Commissioning Period.

Section 3.11 relates to the Exit Capacity Ratchet mechanism. It is envisioned that this mechanism would not apply to the booking of Exit Capacity for the purposes of Commissioning. As this would contradict the objectives of this modification. As such, this Section should be amended to include the following clause:

3.11.4 Where a Shipper is allocated Exit Capacity for the purposes of supplying gas to a power station during the relevant power station's Commissioning Period, the provisions of Section 3.11.1, Section 3.11.2, and Section 3.11.3 of this Code will not apply to Exit Capacity booked for this purpose by the relevant Shipper as identified under Section 3.3.2 (g).

Section 6.8 of the Code outlines the general requirements for Exit Nominations. While no changes are envisioned to this Section of the Code, EP Ballylumford expect that a minor amendment is necessary to Section 6.9 which outlines the Content, Timing, and Submission of Exit Nominations.

6.9.1 An Exit Nomination must specify:

[…] (e) the volume of the Exit Nomination Quantity to be used for the purposes of Commissioning (if any) (in kWh/d).

Section 7.5 of the Code details arrangements for Exit Allocations. It is proposed that the following is amendment is made to this section:

7.5.5. In this Code an "Exit Allocation" is the quantity of gas allocated to a Shipper by the Transporter in respect of a Gas Flow Day and an Exit Point, in accordance with this section 7, pursuant to a Shipper's Exit Nomination, less the quantity of gas allocated to a Shipper for the purposes of Commissioning (if any) pursuant to a Shipper's Exit Nomination.

7.5.6 In this Code an "**Exit Allocation for Commissioning**" is the quantity of gas allocated to a Shipper for the purposes of Commissioning (if any) by the Transporter pursuant to an Exit Capacity Application in respect of a Gas Flow Day and an Exit Point, in accordance with this

section 7, pursuant to a Shipper's Exit Nomination. Nominations for Exit Allocation for Commissioning shall not be considered as "Exit Nominations" for the purpose of deriving an initial Exit Allocation as per Section 7.5.2.][

Section 8 of this Code is concerned with Balancing and Scheduling Charges. We propose the introduction of a new subsection here, which relates to the calculation of Commissioning Charges.

8.6 Commissioning Charges

8.6.1 Where a Shipper has been allocated Exit Capacity for Commissioning in accordance with Section 7 of this Code, they shall be subject to charges calculated in accordance with this Section 8.6 for the quantity of capacity allocated for Commissioning.

8.6.2 In addition to Commissiong Charges, a Shipper which is undergoing Commissioning will be liable for IP Entry Overrun Charges as set out in Section 2.13 of this Code.

8.6.3 In addition to Commissioning Charges, a Shipper which is undergoing Commissioning will be liable for Imbalance Charges as set out in Section 8.3 of this Code.

8.6.4 Commissioning Charges for Exit Capacity, for Unit u, ($CCEX_u$) are calculated as followed:

$$CCEX_u = \frac{(FPACapCt)}{365} \times QECC_u$$

Where:

FPACapCt is equal to the Forecast Postalised Annual Capacity Charge (£ per kWh/d booked); and

$QECC_u$ is equal to the quantity of Exit Capacity for Commissioning allocated to Unit, u (kWh).

Part 2 – The Transporter's Opinion and Consultation Details

A The Transporter's opinion on the modification

The Transporter has considered the proposed modification and sets out its opinion below:

Relevant Objective

The Proposer states that "this change will support the efficient and economic development of the NI Network and promote effective competition by removing economic barriers to potential new Shippers". The Transporter notes that the proposed modification will only apply to Shippers registered at a Power Station Exit Point. New Shippers at a different type of Exit Point would not be able to obtain Exit Capacity on a daily basis, for commissioning purposes or otherwise.

Proposed Modification No.16 which was implemented on 27th April 2023 introduced arrangements to bring the new gas-fired power station into operation including the amendment of the ratchet mechanism to significantly reduce the capacity costs incurred during commissioning. The Transporter believes that economic barriers to new Shippers have already been removed and there is no reason to delay commissioning and risk the security of the electricity supply because of the gas transmission arrangements now in place.

Daily Exit Capacity Products

The proposed modification seeks to introduce Daily Exit Capacity products. The Transporter acknowledges that the intended use is restricted to commissioning a power station, however, the Transporter is of the view that the introduction of Daily Exit Capacity products is complex and a number of considerations need to be taken into account.

This is reflected in the Authority's recently published consultation on Short-Term Exit Capacity[1]. The Transporter is of the view that this process must be completed, taking into consideration the issues not covered by this proposed modification before a decision can be made on whether to introduce Daily Exit Capacity.

Capacity Allocation

The proposed modification is not clear on how Exit Capacity is to be allocated. The proposed changes in section 3 suggest that a Shipper applies for Exit Capacity for Commissioning in accordance with the current process by submitting an Exit Capacity Application and indicating that it will be used during a Commissioning Period.

Whilst this indication is useful, the proposed modification fails to address the timescales associated with this process. For example, applications for Exit Capacity should normally be submitted by 30th April in the preceding gas year. The proposed modification also does not modify the text in section 3.3.3 (d) which requires Exit Capacity booked within the Gas Year to be booked in complete months, not days.

The proposed modification later refers to Exit Capacity being allocated in accordance with section 7 of the Code. It is not clear how this allocation mechanism works in practice, and it should be noted that section 7 of the Code deals with allocations of gas flows, not allocations of capacity.

Structurally, the Transporter would expect Exit Capacity allocation to be addressed in the appropriate section of the Code, Section 3 *Exit Capacity*. The Transporter would also expect the

[1] Consultation on Short-Term Exit Capacity for Gas Transmission in Northern Ireland

process to be covered in sufficient detail including the application timescales, method, allocation and reasons for rejection of the application.

Nominations, Allocations and Imbalances

EP Ballylumford proposes that an Exit Nomination must specify the Exit Nomination Quantity to be used for the purposes of commissioning.

Currently, under the Code, Exit Nominations and Exit Allocations (of gas flow) are made in respect of a specific Exit Point. With this in mind, the proposed modification appears to suggest that a Shipper could have two types of gas flow allocations on a day in respect of the same Exit Point, one for normal commercial use and the other for commissioning. While not explicit in the proposed text, the proposed modification appears to suggest that the Shipper's regular Exit Allocation would be determined as normal (presumably using the meter read at the Exit Point) and then the quantity nominated for commissioning would be subtracted. This would imply that the Exit Allocation for Commissioning would be equal to the quantity nominated for commissioning. The proposed modification does not address the scenario when all the gas nominated is to be used for commissioning, nor how any difference between the metered quantity and nominated quantity is dealt with.

The Transporter's understanding is that commercial generation would generally not be permissible on the electricity network until commissioning and testing were complete. It is not clear why two types of gas flow nominations would be required by a Shipper on a given Gas Flow Day at the same Exit Point.

The proposed modification states that the Shipper will be liable for Imbalance Charges as set out in Section 8.3 however no changes have been proposed to Section 8.3 to account for the Exit Allocation for Commissioning. If (as proposed) the Shipper's regular Exit Allocation was to be reduced by the quantity nominated for commissioning, but Exit Allocations for Commissioning were not included in the Shipper's imbalance calculation, there is a risk that this would artificially inflate the Shipper's Positive Imbalance position on commissioning days, relative to the actual metered offtake of gas. The Shipper would be compensated for its Positive Imbalance and, under the disbursement rules, other Shippers would share the cost impact of the Exit Allocation for Commissioning.

Commodity Charges

The proposed modification does not suggest any changes to how Commodity Charges are applied and in particular it is not clear whether or not the proposer intends Commodity Charges should apply in relation to Exit Allocations for Commissioning.

Commissioning Charges

It is proposed that a new section, Section 8.6 *Commissioning Charges* is inserted into Section 8. Currently, section 8 primarily covers charges from the Code Charges which relate to energy balancing activities. However, the stated intention of the proposed modification is to address the Exit Capacity arrangements.

Under the current structure of the Transporter's Licences, Exit Capacity charges contribute to the Transporter's Annual Required Revenue and any additional revenue recovered would reduce the unit cost of capacity for all Shippers, through the postalised charging arrangement. The Transporter is financially neutral to Code Charges, however other Shippers would be exposed to the impact of any changes to Code Charges through the disbursement arrangements.

It would therefore be inappropriate to include Commissioning Charges (intended to address the cost of Exit Capacity) as Code Charges.

Ratchet Charges and Overruns

It is proposed that Ratchet Charges would not apply to Exit Capacity booked for the purposes of commissioning. The proposed text says that a Shipper would be liable for IP Entry Overrun Charges however EP Ballylumford does not propose that overrun charges with respect to Exit Capacity would apply (in place of Ratchet Charges).

This implies that there would be no penalty for a Shipper whose Exit Allocation for Commissioning exceeded its allocated Exit Capacity for Commissioning Arguably this would provide a commercial incentive to not apply for any Exit Capacity at all in relation to commissioning.

Revenue Treatment

The Transporter's Licences do not permit the Transporter to offer Daily Exit Capacity and therefore do not address how the revenue from those products is treated. The proposed modification is silent on this matter although, as noted above, including commissioning charges as part of Code Charges suggests that the proposer intends that any commissioning charge revenue (and any related energy balancing costs) would flow through the disbursement arrangements, rather than providing additional revenue towards the Allowed Revenues of the Transporter (and hence reduce overall unit costs in the postalised charging arrangement). In any event, the Transporter would expect a Licence Modification to be needed to address revenue treatment.

Definitions

The Transporter notes that the following terms have been introduced but not defined:

- Operational Certificate
- Capacity Market Code
- Commissioning Charges
- Exit Capacity for Commissioning

Implementation Issues

It is important to note that the Delphi IT System does not currently have the functionality to facilitate the proposed changes to the nominations, allocations and billing proposed in the modification. The Transporter would need to scope out the changes and determine the resources required to implement these changes. Depending on the estimated costs, the Transporter may have to seek additional allowances from the Authority to fund the modifications. Assuming the Transporter had sufficient funding, it is estimated that implementation of systems functionality changes would take 6 to 9 months.

The Transporter's Licences specify what products the Transporter can offer and charge for and the associated revenue treatment. The Licences do not allow the Transporter to offer a Daily Exit Capacity product. To enable the Transporter to offer such products, the Transporter would expect the Licences to be modified. This process typically takes several months. In the interim, prior to modifying the Licences the Authority may decide to provide the Transporter with written consent to offer these products, however, considering the likely IT development required this interim solution may not reduce the overall implementation time.

In addition, the Transporter would expect to modify the Gas Transportation Charging Methodology Statement to reflect the introduction of the new charges.

B Impact on the networks of the Designated Pipeline Operators, Adjacent Transporters and/or relevant agreements in respect of the NI Network:

The Transporter has considered the impacts the modification may have and has concluded as follows:

- Operation of the networks of the Designated Pipeline Operators: No impact
- Adjacent Transporters: No impact
- Relevant NI Agreements: No impact

C The Transporter's estimate of an implementation date

On the assumption that written consent under the Transporter's Licences is provided from the Authority to offer Exit Capacity on a daily basis, the Transporter estimates that it would take 6 to 9 months to complete the scoping, implementation and testing of Delphi system changes.

D How to Respond

Please send responses no later than 1st June 2023 by email to:

shippercommunications@gmo-ni.com