CODE OF OPERATIONS MODIFICATION PROPOSAL

MODIFICATION DETAILS	
Modification Number: A098	**Modification Title:** Reduction of Capacity Overrun Multipliers

Modification Proposer:	Modification Representative:	Modification Representative Contact Details (email address):	Date Submitted:	Proposed Implementation Date:
Gas Networks Ireland	Andrew Kelly	marketdevelopment@gasnetworks.ie	26/02/2019	01/05/2019

Proposal (including rationale):

It is proposed to reduce the Overrun Multiplier of eight times to four times the applicable Daily Capacity Charge when calculating IP Capacity Overrun Charges, Entry Capacity Overrun Charges, Exit Capacity Overrun Charges, Sub-Sea I/C Offtake Overrun Charges and IP Interruptible Capacity Overrun Charges. This modification follows some representations in particular from the gas fired power generation sector, who consider the existing overrun rate as overly penal in the context of a situation where they have to react to Eirgrid instructions which can vary from hour to hour. Furthermore the Eirgrid instructions may occur late in the Gas Day when Shippers cannot purchase capacity.

Proposed Implementation Date:

01/05/2019

Proposed section of the Code to be modified:

Sections 11.3.3(b), 11.3.6(b), 11.4.5(b), 11.4.5 (e) and 11.5.5 of Part C *(Capacity*)

MODIFICATION MOTIVATION

Intended Outcome of the Proposed Modification:

The proposed Overrun Multiplier seeks to strike a balance between incentivizing Shippers to book adequate capacity on the GNI network whilst not unduly penalizing exposed Shippers.

Benefits of implementing this Modification:

While incentivizing Shippers to book adequate capacity it avoids unduly penalizing a segment of the Industry.

Consequences of not making this Modification:

The present capacity overage charge calculation predates the introduction of Short Term Capacity products and could be viewed as unduly penal, particularly in shoulder and winter periods.

Illustrative Example (Please enter a scenario where the issue and solution are illustrated):

A power station Shipper with an overrun of **750,000 kWh** (equivalent to approx. 1 hour of max load at a particular power station) at Moffat Entry and at its LDM Exit in the month of February when the Daily Capacity Charge would be circa. €12,600 would at present attract overrun charges of €101,000. If the Overrun Multiplier was reduced from 8 times to 4 times, the overrun charges would be c. €50,500.

Month	Cost of Daily Capacity	Cost of Overrun @ 8x	Cost of Overrun @ 4x
October	3,553	28,424	14,212.01
February	12,633	101,063	50,531.58
June	268	2,148	1,073.80

At present, GNI retain the daily capacity charge equivalent of c. €12,600 and the residual capacity overrun charge of c. €88,400 is credited to the disbursements account and shared out amongst all shippers relative to their share of the disbursements for that period. With this proposed code modification, the aggregate shipper overrun charge would fall from c. €101,000 to c. €50,500. GNI would continue to retain the daily capacity charge equivalent of c. €12,600 and the residual capacity overrun charge of c. €37,900 would be credited to the shipper disbursement account.

The key impacts of the code modification would therefore be that:

1. GNI's retained share of the overrun charge remains unchanged, and reflects the equivalent daily capacity charge
2. The overrun charge in aggregate to the affected shipper would reduce by 50%
3. The credit to the shippers disbursement account would fall from 7 times the daily capacity charge to 3 times the daily charge.

An Coimisiún um Rialáil Fóntas
Commission for Regulation of Utilities

CODE OF OPERATIONS

NOTICE TO SHIPPERS

PURSUANT TO THE CODE OF OPERATIONS

APPROVAL OF MODIFICATION

CODE MODIFICATION A098 REDUCTION OF CAPACITY OVERRUN MULTIPLIERS

COMMISSION INSTRUCTION

Pursuant to Section 13 (1) of the Gas (Interim) (Regulation) Act, 2002, the Commission hereby approves Code Modification A098 'Reduction of Capacity Overrun Multipliers'.

This modification amends Part C (Capacity) of the Code of Operations. This approved modification will come into effect on 1 November 2019.

Signed: _____

Karen Trant, Director of Energy Networks

Issue Date: 15/10/2019

CODE OF OPERATIONS

NOTICE TO SHIPPERS

PURSUANT TO PART C OF THE CODE OF OPERATIONS

CODE MODIFICATION A098 REDUCTION OF CAPACITY OVERRUN MULTIPLIERS

COMMISSION RATIONALE

Pursuant to Section 13 (1) of the Gas (Interim) (Regulation) Act, 2002, the Commission approves Code Modification A098 *Reduction of Capacity Overrun Multipliers*. This approved modification will come into effect on 1 November 2019. The background and rationale for this Code Modification are set out below.

BACKGROUND

Since the introduction of third-party access, the Code of Operations has been amended to increase the range of transmission capacity products available to shippers. The introduction of shorter-term capacity products enables Shippers to avail of short-term capacity products such as Monthly, Daily and Within Day. This has provided Shippers with greater flexibility and Shippers now buy a range of these products. It is the responsibility of the Shipper to ensure that, through these purchases, they have sufficient Entry and Exit Capacity. If they have too little capacity booked, they are required to pay a penalty. This is to incentivise shippers to book adequate capacity for their portfolios.

The total amount of capacity held by a shipper at any point in time is termed a Shipper's 'Active Capacity'. Each day that a Shipper submits a nomination for gas transportation services, GNI will allocate a quantity of gas to the Shipper reflective of its confirmed nomination quantity and/or the quantity of gas metered at the point of nomination be it at Entry or Exit. Such allocation is given in accordance with the rules for allocation of gas outlined in the Code of Operations. Where, on a day, a Shipper's allocation of gas at a transmission Entry or Exit Point is in excess of the

Active Capacity they have reserved, through the purchase of Capacity Products, that shipper will incur a financial penalty called a Capacity Overrun Charge.

Capacity Overrun Charges also apply on the Distribution System at LDM Supply Points and DM Supply Points. NDM Supply Points are not subject to Capacity Overrun charges. Monies received from shippers pursuant to Capacity Overrun Charges is treated as GNI regulated revenue and is not cashed back to shippers at year end. This Code Modification A098 relates to Transmission Capacity only.

BRIEF OUTLINE OF THE CODE MODIFICATION

Code Modification A098 amends the Code of Operations to provide for a lower level of Capacity Overrun Charge for the following five categories:

- IP Capacity Overrun Charge,
- Entry Capacity Overrun Charge,
- Exit Capacity Overrun Charge,
- Sub-Sea I/C Offtake Capacity Overrun Charge and
- IP Interruptible Capacity Overrun Charge.

The proposed modification does not amend the arrangements in place for Supply Point Capacity.

Currently, on the transmission system the Capacity Overrun Charge for the above five categories of capacity is eight times the daily cost of capacity. This modification reduces the multiplier to four.

REASONS FOR APPROVAL OF THE CODE MODIFICATION

The proposed multiplier reduction seeks to achieve a balance between incentivising shippers to book adequate capacity on the network while not unduly penalising shippers who under book. The present multiplier of eight predates the introduction of short-term capacity products and is considered to give rise to a penal overrun charge particularly during Winter and shoulder periods when daily capacity multipliers are themselves high. Amending the value to four is considered to be fairer for Shippers while retaining an adequate incentive for proper booking of capacity.

Sample calculations are presented below for the case of a Moffat Shipper supplying an LDM Exit point having a shortfall in Active Capacity of 750MW. The Shipper incurs a Capacity Overrun for the full amount of the shortfall i.e. 750MW. The Capacity Overrun Charge is based on the cost of daily capacity which varies from month to month depending on the month in which the overrun occurs. The overrun charge is presented for days across various months.

Month in which overrun occurs	**Cost of Daily Capacity (Moffat Entry + Exit)**	**Cost of Overrun @ 8x**	**Cost of Overrun @ 4x**
October	€3,553	€28,424	€14,212.01
February	€12,633	€101,063	€50,531.58
June	€268	€2,148	€1,073.80