



Making a positive difference  
for energy consumers

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Dear Stephen,

**Approval of the access rules proposed by Premier Transmission Limited including directions of approval pursuant to Standard Licence Condition (SLC) 11A of the gas interconnector licence**

Premier Transmission Limited ('PTL') submitted access rules on 20 October 2016 to the Authority for approval. These were submitted pursuant to Standard Licence Condition (SLC) 11A of the gas interconnector licence ('licence').<sup>1</sup>

This letter and its annexes set out our approval of the submitted proposals. Attached to this letter in Annex 1 is a direction to PTL approving the proposed access rules on the basis that they meet the relevant access rules objectives.<sup>2</sup>

**Background**

The final report of the European Commission's sector inquiry into competition in gas and electricity markets (published in January 2007) noted (amongst other things) the lack of effective competition in European markets.<sup>3</sup>

In response, a suite of legally binding European Union (EU) legislation, referred to as the Third Package, on European electricity and gas markets was introduced and adopted on 13 July 2009.<sup>4</sup> The Third Package was transposed into law in Great Britain (GB) by regulations that came into force on 10 November 2011.

The Third Package creates a new legal framework to promote cross-border trade. It requires a number of legally binding Guidelines and 'Network Codes' to be established and

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<sup>1</sup> The current version of the gas interconnector licence and SLCs can be found at [epr.ofgem.gov.uk](http://epr.ofgem.gov.uk)

<sup>2</sup> The 'relevant access rules objectives' are set out in SLC 11A(5) of the licence.

<sup>3</sup> Inquiry pursuant to Article 17 of Regulation (EC) No 1/2003 into the European gas and electricity sectors (Final Report): [http://ec.europa.eu/competition/sectors/energy/2005\\_inquiry/index\\_en.html](http://ec.europa.eu/competition/sectors/energy/2005_inquiry/index_en.html).

<sup>4</sup> In relation to gas, the Third Package includes Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC (the "Gas Directive") and Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005 (the "Gas Regulation").

implemented.<sup>5</sup> Taken together, these aim to promote liquidity, improve integration between Member States' gas markets and promote the efficient use of interconnectors to ensure that gas flows according to price signals, ie to where it is valued most.<sup>6</sup> These EU legislative requirements take priority over GB domestic legislation and associated regulations and codes. There are four such European Network Codes (ENCs) relevant to this decision letter, these are:

- Capacity Allocation Mechanisms in Gas Transmission Systems (CAM): this was published in the Official Journal of the European Union (OJEU) on 15 October 2013 and applies from 1 November 2015.<sup>7</sup> CAM aims to facilitate equal and transparent access to transmission capacity, achieve effective competition on the wholesale gas market, facilitate a more transparent, efficient and non-discriminatory system of allocation of capacity and avoid foreclosure of downstream supply markets. It does this by introducing standard capacity products (in terms of duration), auctions of bundled capacity products at interconnection points (IPs) via a cross-border web-based booking system, coordination of maintenance of pipelines or parts of transmission networks by Transmission System Operators (TSOs)<sup>8</sup> and communication procedures by TSOs.
- Congestion Management Procedures (CMP)<sup>9</sup>: this aims to tackle contractual congestion (where gas transportation capacity is fully booked but not fully used).<sup>10</sup> This situation may occur where there is physical capacity to flow more gas, but the right to flow it is tied up in existing contracts with network users so that others cannot gain access to it. Contractual congestion results in inefficient use of gas transportation assets and is a barrier to cross border trade. CMP aims to enhance the efficient use of transportation capacity by bringing unused capacity back to the market on a firm basis, thereby making it available to market participants who wish to make use of it.
- Gas Balancing of Transmission Networks (BAL): this was published in the OJEU on 27 March 2014 and applies from 1 October 2015.<sup>11</sup> BAL aims to facilitate cross-border gas trade and the further development of competitive and efficient wholesale gas markets in the EU. The code requires the use of non-discriminatory and transparent balancing systems, which are of particular importance for new market entrants, and specifies procedures for nominations to flow gas at IPs.
- Interoperability and Data Exchange (INT): this was published in the OJEU on 1 May 2015 and applies from 1 May 2016.<sup>12</sup> The code covers ways in which network operators manage gas flows across borders, deal with differences in gas quality, exchange data between themselves and market players, rules for matching nominations to flow gas at either side of an IP and rules for allocating gas. The code also requires adjacent TSOs to agree and set out these rules in interconnection agreements.

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<sup>5</sup> See Article 6 (Establishment of network codes) of the Gas Regulation which sets out the process for establishing EU-wide network codes for gas.

<sup>6</sup> See Article 8(6) of the Gas Regulation for the areas required to be covered by network codes.

<sup>7</sup> Commission Regulation (EU) No 984/2013 of 14 October 2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R0984&from=EN>.

<sup>8</sup> References to TSOs in this letter include interconnectors.

<sup>9</sup> CMP is a Guideline and not a separate network code; formally, it is an amendment to the guidelines on congestion management procedures which form part of Annex I of the Gas Regulation. However we have referred to it using the same abbreviation of 'ENCs' throughout this letter for brevity.

<sup>10</sup> Commission Decision of 24 August 2012 on amending Annex I to Regulation (EC) No 715/2009 of the European Parliament and of the Council on conditions for access to the natural gas transmission networks: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:231:0016:0020:en:PDF>.

<sup>11</sup> Commission Regulation (EU) No 312/2014 of 26 March 2014 establishing a Network Code on Gas Balancing of Transmission Networks: [http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2014.091.01.0015.01.ENG](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.091.01.0015.01.ENG).

<sup>12</sup> Commission regulation (EU) 2015/703 of 30 April 2015 establishing a network code on interoperability and data exchange rules [http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1430734293842&uri=OJ:JOL\\_2015\\_113\\_R\\_0003](http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1430734293842&uri=OJ:JOL_2015_113_R_0003).

Standard License Condition (SLC) 11A.5 of the Gas interconnector licence requires that access rules comply with the Gas Regulation.<sup>13</sup> The ENC's have been adopted on the basis of the regulation which it supplements and of which it forms an integral part. PTL's proposed access rules must therefore comply with the four ENC's mentioned above. National Grid Gas plc (NGG) owns and operates the national transmission system in GB.

GNI (UK) owns the gas interconnector between Moffat, in South West Scotland, and the interface between UK territorial Waters and Manx Waters, for which it holds a gas interconnector licence. The GNI (UK) interconnector is connected to the NGG system at Moffat and splits into two different pipes before leaving the Scottish mainland.

Premier Transmission Limited (PTL) holds an interconnector licence allowing it to operate the gas interconnector between Twynholm, in South West Scotland and Ballylumford, in Northern Ireland, and is connected to the GNI (UK) interconnector at Twynholm.

The PTL interconnector forms part of the Northern Irish (NI)<sup>14</sup> entry-exit system, which has an entry point at Moffat. In order to offer NI entry and exit capacity at Moffat, PTL must use GNI (UK)'s interconnector pipeline between Moffat and Twynholm in combination with its own interconnector. PTL then contracts directly with NI shippers to offer NI entry and exit capacity at Moffat. As a result GNI (UK) has no direct relationship with NI shippers despite the NI shippers flowing gas on the GNI (UK) interconnector between Moffat and Twynholm.

Gas Networks Ireland Limited (GNI) owns two interconnectors that connect with GNI (UK)'s interconnector pipes at the interface between UK Territorial Waters and Manx Waters and continue to the Irish mainland. The GNI interconnectors form part of the Irish entry-exit system which has an entry point at Moffat.

Standard Licence Condition (SLC) 11A of the gas interconnector licence requires PTL to prepare and submit a statement setting out access rules for the approval of the Authority and also sets out the minimum requirements for what access rules should include.

### **Main Features of Access Rules**

PTL submitted their access rules to Ofgem in the form of a 'sign-posting' document that highlights where in PTL's Transportation Code each provision of SLC 11A(4)<sup>15</sup> is demonstrated.

PTL's access rules set out the rules for obtaining and using capacity on the PTL interconnector.

The main features of PTL's proposed access rules are contained within Annex 2 of this letter.

### **Decision on the proposed access rules**

Upon review of the documents submitted on 20 October 2016 to Ofgem for approval with the main features as summarised in Annex 2, the authority considers the proposed access rules to be transparent, non-discriminatory, objective and compliant with the relevant ENC's listed above.

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<sup>14</sup> NI is used interchangeably to refer to Northern Ireland and Northern Irish as the context requires.

<sup>15</sup> Standard Licence Condition (SLC) 11A(4) details the information that must be included in particular (but not limited to) in the access rules.

Directions issues in accordance with SLC11A(8) and SLC 11A(15) of the licence to this effect can be found in Annex 1 of this letter.

As mentioned above, the access rules were submitted to Ofgem in the form of a 'sign-posting' document. We regard both the 'sign-posting' document and the relevant sections in PTL's Transportation code that are referenced in the 'sign-posting' document to be part of PTL's access rules. Therefore we would expect both documents to be subject to any requirements under SLC 11A.

We note that there are a few minor clerical errors which do not materially affect how PTL's access rules comply with the relevant access rules objectives given in SLC11A(5) but ask PTL to consider addressing these in the first annual review of its access rules under SLC 11A(9).

Yours sincerely

A handwritten signature in blue ink that reads "F Warburton". The signature is fluid and cursive, with the first letter 'F' being particularly large and stylized.

Frances Warburton  
**Partner, Energy Systems**

## ANNEX 1- Ofgem Direction

### **Direction issued to Premier Transmission Limited (PTL) pursuant to Standard Licence Condition 11A (approval of terms for access to the licensee's interconnector) paragraphs 8 and 15 of its gas interconnector licence**

1. This Direction is issued by the Gas and Electricity Markets Authority (the "Authority") pursuant to Standard Licence Condition 11A (SLC 11A) paragraph 8 of the gas interconnector licence ("the Licence") granted or treated as granted under section 7ZA of the Gas Act 1986 ("the Act") to Premier Transmission Limited ("PTL" or "the licensee").
2. SLC 11A paragraph 2 provides that the licensee shall prepare and submit for approval by the Authority a statement setting out the Access Rules (as defined in the Licence).
3. SLC 11A paragraph 5 requires that the Access Rules be transparent, objective, non-discriminatory and compliant with the Regulation (Regulation (EC) No 715/2009 on conditions for access to the national gas transmission networks) and any relevant legally binding decision of the European Commission and/or Agency (collectively the 'relevant access rules objectives').
4. SLC 11A paragraph 6 requires the licensee to take all reasonable steps to ensure that all persons, including those in other Member States who may have a direct interest in the Access Rules, are consulted and allow them a period of not less than 28 days within which to make written representations. The licensee must also furnish the Authority with a report setting out the terms originally proposed in the Access Rules, the representations, if any, made by interested persons and any change in the terms of the Access Rules intended as a consequence of such representations.
5. SLC11A paragraph 15 requires the licensee to publish (at least on its website) the Access Rules as soon as practicable after the Access Rules have been approved by the Authority. The Access Rules must be published 28 days prior to coming into effect, unless the Authority directs otherwise.
6. In accordance with SLC11A paragraph 2, on 20 October 2016 PTL submitted its Access Rules to the Authority for approval.
7. In accordance with SLC 11A paragraph 6(b), on 24 November 2016 PTL furnished the Authority with a report setting out the terms originally proposed in its Access Rules, the representations made by interested persons, and the changes as a consequence of the consultations.
8. Having regard to the relevant access rules objectives set out in SLC 11A paragraph 5, and to our principle objective and statutory duties, the Authority considers that the submitted Access Rules meet the relevant access rules objectives and so the Authority has decided to approve the PTL Access Rules.
9. The Authority hereby directs, pursuant to SLC 11A paragraph 8, that the PTL Access Rules are approved.
10. The Authority hereby directs, pursuant to SLC 11A paragraph 15 that the Access Rules may be published 28 days before coming into effect.
11. This Direction shall have immediate effect. It shall remain in effect until such time as the Authority may revoke or vary the Direction in writing upon reasonable notice.
12. This direction constitutes notice of the Authority's reasons for the decision pursuant to section 38A of the Act.

Dated: 20 January 2017



Frances Warburton

**Partner, Energy Systems**

Duly authorised on behalf of the Authority

## ANNEX 2- Main Features

### Main features proposed in Premier Transmission Limited (PTL)'s access rules

1. The arrangements regarding capacity include that:
  - 1.1 PTL agree to withhold from annual auctions of NI entry capacity the lesser of:
    - 1.1.1 10% of technical capacity and available capacity, for the five years following the auction and;
    - 1.1.2 20% of technical capacity and available capacity, for the following ten years.
  - 1.2 Capacity in the opposite direction from physical flow is made available to shippers as interruptible capacity (ie virtual reverse flow from NI to GB).
  - 1.3 Shippers holding both NGG exit and NI entry unbundled capacity may to decide to bundle their capacity at Moffat.
  - 1.4 NGG exit and NI entry capacity in the forward flow direction is offered on a firm basis.
2. The arrangements regarding capacity auctions include that:
  - 2.1 Capacity is to be allocated by way of auctions for standard CAM capacity products under the algorithms in compliance with the CAM ENC.
  - 2.2 Standard capacity products are auctioned on the European capacity booking platform 'PRISMA'.
  - 2.3 For standard capacity products auctioned by way of ascending clock auctions:
    - 2.3.1 Shippers can bid for yearly, quarterly and monthly entry capacity products at Moffat.
    - 2.3.2 Where available NI plus Irish entry capacity exceeds the available GB exit capacity at Moffat, the GB-NI auctions will be linked to GB-IE auctions.
    - 2.3.3 Where available NI plus Irish entry capacity is less than the available GB exit capacity at Moffat, the GB-NI and GB-IE auctions will not be linked.<sup>16</sup>
    - 2.3.4 Bidding windows fall between 8.00 (UTC) and 17.00 (UTC) on any given gas flow day (D).
    - 2.3.5 In the case of unbundled auctions, the large price step at Moffat will be 5% of the NI Reserve price.<sup>17</sup>
    - 2.3.6 In the case of bundled auctions, the large price step at Moffat will be the sum of the large price step defined in 2.3.5 and the large price step determined by the adjacent transporter.
    - 2.3.7 The small price step at Moffat is one fifth of the large price step unless agreed by the adjacent transporter.<sup>18</sup>
  - 2.4 For standard capacity products auctioned by way of uniform price auctions:
    - 2.4.1 Shippers can bid for daily entry capacity in day-ahead auctions or remainder of the day capacity within-day auctions.
    - 2.4.2 Bidding windows for within-day daily entry capacity fall between 18.00 (UTC) and 01.30 (UTC) on the day before the gas flow day (D-1); and every thirty minutes between 02.00 (UTC)(D-1) and 00.30 (UTC) on the gas flow day (D).
    - 2.4.3 Within-day NI entry capacity allocated to shippers from the first bid window described in 2.4.2 will have an effective time of 05.00 (UTC) on gas flow day (D).
    - 2.4.4 Within-day NI entry capacity allocated to shippers from the second bid window and each bid window thereafter described in 2.4.2 will have an effective time of 3.5 hours after the close of the relevant bid window.

<sup>16</sup> Linked auctions allow for GB capacity at Moffat to be offered in both IE and NI auctions and for GB capacity at Moffat to be allocated on the route (to either IE or NI) that is valued the most.

<sup>17</sup> The NI Reserve price is set out in PTL's Charging Methodology <http://www.mutual-energy.com/tariffs/>.

<sup>18</sup> For the avoidance of doubt, National Grid is the adjacent transporter in the context of bundling standard capacity products at Moffat.

- 2.4.5 Bidding windows for rolling day-ahead auction of daily entry capacity begin at 15:30 on the day before the gas flow day (D-1).
  - 2.4.6 Virtual reverse flow is available as interruptible NI daily capacity in rolling day-ahead auctions.
  - 2.4.7 Bidding windows for interruptible reverse flow NI daily exit capacity begin at 16.30 on D-1.
3. Procedures for nominating gas flows against the capacity include that:
- 3.1 Nominations can be submitted from 30 days before the gas flow day (D-1) and no later than 13.00 on D-1.
  - 3.2 Shippers can make either single-sided nominations for NI entry capacity or double-sided nominations for both NGG exit and NI entry capacity.
  - 3.3 Where nominations are single-sided, PTL offer a service to match the nominated quantity with a corresponding NGG exit nomination.
  - 3.4 Renominations can be submitted between 15.00 on D-1 and 02.00 on D.
  - 3.5 The time from which renominations become effective must not be:
    - 3.5.1 Earlier than two hours after the hour bar when the renomination is made.
    - 3.5.2 Earlier than the start of the gas flow day.
    - 3.5.3 Later than 04.00 on D.
  - 3.6 PTL may revise shippers' nominations in the event of a gas day (D) or predicted gas day (D-1) shortfall.<sup>19</sup>
  - 3.7 PTL may revise shippers' virtual reverse flow exit nominations in the event that:
    - 3.7.1 There is insufficient availability of (virtual) NI exit capacity.<sup>20</sup>
    - 3.7.2 There is a gas day (D) or predicted gas day (D-1) shortfall.
4. Procedures for PTL to resell or make available to other users unused interconnector capacity include that:<sup>21</sup>
- 4.1 PTL will implement procedures to make available unused capacity when all annual auctioned capacity is sold out and there is an additional demand for quarterly and annual capacity.
  - 4.2 Based on an analysis of historic capacity under-utilisation and predicted gas demand, an additional amount of over-subscription capacity equal up to 5% of NI technical entry capacity may be offered to shippers.
  - 4.3 Where over-subscription capacity has been offered, PTL may also make an offer to buy back capacity from shippers based on its assessment of prevailing operational and technical conditions.
  - 4.4 A shipper can offer to surrender any of its capacity it does not wish to use to PTL.
  - 4.5 Where a shipper holds more than one yearly capacity product or at least two consecutive years' worth of quarterly capacity products and PTL has determined that this capacity is being underutilised, the TSO may withdraw all or part of the capacity being held by that shipper, ie long term use it or lose it (LT UIOLI).
  - 4.6 Shippers can resell or transfer all or part of their held capacity to other transferee shippers at the same interconnection point.
  - 4.7 Capacity described in 4.6 can be resold or transferred for a period less than or equal to the duration which that capacity product relates to.
5. Arrangements for ancillary services such as balancing arrangements include that:
- 5.1 PTL will cooperate with the other NI network operators to take measures to ensure the NI network is physically in balance.<sup>22</sup>

<sup>19</sup> PTL set out the procedures around exceptional events and emergencies that would lead to a revision in nominations separately in its Transportation Code.

<sup>20</sup> The amount of virtual reverse flow capacity is governed by conditions in the PTL-GNI(UK) Transportation Agreement.

<sup>21</sup> The implementation of these procedures is dependent on the relevant CMP sections of the PTL Transportation Code coming into effect.

<sup>22</sup> Operational balancing is governed by conditions in the NI Network Operators Agreement.

- 5.2 As a part of these measures PTL may purchase or dispose of gas to ensure the network is in balance.
- 5.3 Shippers will be invoiced either a positive or negative imbalance charge based on the level and direction of imbalance of each shippers' respective balancing portfolio at the end of each gas day.
- 5.4 PTL will designate scheduling charges based on the level of difference between shippers exit nominations and final exit allocations each gas flow day.
- 5.5 All charges or payments from PTL relating to balancing gas, imbalance charges and scheduling charges will be invoiced to shippers monthly from a disbursement bank account.<sup>23</sup>

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<sup>23</sup> PTL set up and procured the disbursement account but do not receive any revenue from its use.