

Regulation (EC) No 1775/2005
Impact on Northern Ireland's Gas
Transmission Network

Northern Ireland Authority for Energy Regulation
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1.0 Introduction

In September 2005 the European Commission (“the Commission”) issued Regulation (EC) No 1775/2005 (“the Regulation”). The Regulation applies to gas transmission networks only and will be legally binding on transmission pipeline operators with effect 1 July 2006. For Northern Ireland (“NI”) this applies directly to the three Designated Pipeline Operators (“DPOs”) – PTL, BGE (NI) and Phoenix Transmission.

Unlike a Directive the Regulation does not need to be implemented, meaning that the DPO’s legal obligations will be binding as of 1 July 2006. Some enforcement powers for the Northern Ireland Authority for Energy Regulation (“the Authority”) may be granted under the Regulation, although this would require legislative changes which the Authority is currently discussing with the Department of Enterprise, Trade and Investment (“DETI”).

The rest of this paper will examine the Regulation in more detail, and in particular will focus on those services stated in the Regulation that are currently unavailable in NI. This consultation is an opportunity for industry to comment on whether those services not yet provided in NI would be welcome and used. It should be noted that to date no shipper has approached the Office for the Regulation of Electricity and Gas (“Ofreg”) seeking that these services be made available in NI. Shippers should also be aware that Ofreg envisages deepening the services available in NI once the market is more mature and for the moment we are not convinced that the Regulation should be a priority. However we believe that as it is shippers that ultimately pay the cost of NI’s gas transmission network, shippers have a critical role in helping the Authority decide how to move forward with the Regulation and welcome all views on the matter.

Shippers should note that if any new services are requested the Authority will ensure that service charges, including the cost of their introduction, are fair and appropriately targeted. It is our intention that the introduction of new services should not lead to any party benefiting at the expense of another. We hope to work with industry and

the DPOs to ensure that everyone's needs are met without imposing excessive additional costs on NI's gas transmission network.

2.0 The Regulation

The Regulation imposes a number of obligations on the DPOs, including the provision of a number of services that are currently unavailable in NI in the form stated in the Regulation. These services are detailed below:

Regulation: *Interruptible capacity priced to reflect the probability of interruption.*

Status: An interruptible product is currently available and is priced at 100% of the postalised commodity charge only.

Regulation: *Short-term access to firm capacity down to a period of one day.*

Status: Short-term access is currently available but the minimum period for booking firm capacity is twelve months.

Regulation: *Online based information on capacity and balancing status of network users.*

Status: Currently no such service is provided.

Regulation: *Secondary trading of capacity down to a period of one day.*

Status: Capacity transfers between suppliers are currently available, but only down to a minimum period of one month.

Full implementation of the Regulation requires that these services be made available as stated in the Regulation. This would require changes to network codes and IT systems, and is likely to be an expensive exercise. The Authority is keen to avoid making these changes to facilitate the introduction of services unless they are in demand and will benefit end users. Furthermore the Commission has made it clear that it does not intend for the Regulation to lead to the provision of services that are not required.

We shall now examine in further detail each of the services mentioned above.

2.1 Interruptible capacity priced to reflect the probability of interruption

The current regime offers an interruptible product which is priced at 100% of the postalised commodity charge only. That is, the capacity charge for interruptible capacity is effectively £0 per annum. It is uncertain if this pricing methodology is consistent with the requirements of the Regulation.

To learn more about the Commission's expectations Ofreg visited the Commission to discuss the Regulation in March. The Commission did not give any indication as to how interruptible capacity should be priced. The Commission's primary concern is that an interruptible product is made available in all member states, especially where there is congestion in the transmission network.

Following the findings of the NI Pressure Report, it is clear that there is no congestion in the NI gas transmission network and that there does exist unsold firm capacity. Despite this the Authority is of the view that no changes need to be made to the interruptible product on offer, including its pricing. The available interruptible product is not widely used, given that most shippers have a licence obligation to book enough firm capacity to ensure security of supply for their customers. The Authority would also take action in the event of flight from firm. It should also be highlighted that any changes to the interruptible product will require significant changes to the Belfast arrangements.

If the National Grid Exit Reform is implemented in full, then the NTS Interruptible service may only be provided on a D-1 basis, yielding a potentially volatile NTS service. If this was the case and NI shippers were driven towards booking firm NTS Exit Capacity, would a NI interruptible service be used even less than it is now.

The issue of interruptible capacity was addressed in our December consultation paper¹. In light of the consultation responses, the Authority concludes that applying a

¹ "The NI Gas Transmission Operational Regime: The Way Forward", NIAER, December 2005.

charge for interruptible capacity will have little effect on current capacity bookings and is minded to make no amendments to the interruptible arrangements currently in place until at least 2008.

Qx. Is the current pricing methodology for interruptible capacity suitable?

2.2 Short-term access to firm capacity down to a period of one day

In order to provide a daily firm capacity product the current postalised tariff regime may need to be modified. Shippers' long term capacity bookings would be used to determine the forecast capacity tariff, and a combination of long and short-term capacity bookings would then be used to determine actual year end tariffs.

However this approach could lead to two very different tariffs. In addition the cost of making the necessary amendments to each DPO's network code and licence would be significant, and these costs would be passed through to shippers.

Qx. Are there any other possible solutions?

The Authority's interpretation of this service is to give transmission users the option of using gas in the summer for example, without having to book and pay for capacity all year round. An example might be that some I&C customers find it beneficial to power their plant with gas in summer when it is cheap but use an alternative fuel the rest of the year.

If short-term access to firm capacity is made available the Authority envisages using a pricing methodology that would see lower charges in the summer and higher charges in the winter. Pricing in this manner will thus mean that shippers who ship gas all year round will not stand to gain from reducing their 12 month firm booking and then topping up using the short-term access service to meet peak winter demand.

Qx. In light of the likely pricing methodology for this service, are any parties interested in a short-term firm capacity product?

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2.3 Online based information on capacity and balancing status of network users

PTL currently conduct network analysis for SNIP and publish what capacity is available on SNIP via the NI Pressure Report. Under the current regime with long-term firm capacity bookings, the information provided may only ever change a few times a year if at all, and could be facilitated relatively easily via a web page. If a short-term capacity service is required by shippers, then a real-time online product would have to be developed. Development costs are estimated to be approximately £100,000 and the annual administration cost of the service would be of similar magnitude. [BGE to put forward estimates of BGE costs for this service]

Carl, PTL has no issue with NIAER publishing the costs listed above, but we would re-iterate at this stage that any costs provided by PTL previously were only rough estimates. More accurate costs could not be provided without getting a detailed scope of the services required and consulting with our IT provider.

With respect to online based information on the balancing status of network users, no such service is currently available in NI. However PTL do offer an online nomination service and do not foresee any major problems in providing entry and exit allocations online. However these entry and exit allocations could only be provided on a D+1 basis as PTL only balances the system on a daily basis. Providing information in real time (i.e. balancing on an hourly basis) would require major changes to IT systems at significant cost.

The Commission clarified its intention that this particular service does not require information be available on an hourly basis *unless balancing takes place on an hourly basis*. As balancing takes place on a daily basis in the NI system, information on the balancing status of network users need also only be updated on a daily basis.

Could the question be asked to Shippers as to what type of online based information they would require. Any requests would allow NIAER and the DPOs to determine whether the information could be used by Shippers to game the system.

As a final point, under the current regime of two balancing zones both PTL and BGE would need to assess separately the balancing status of network users operating in their respective section of the network. However if we move successfully to a single balancing zone in NI (see 3.0 Way Forward section for further details) then it is possible that only one DPO need take responsibility for the provision of this service, most probably PTL.

2.4 Secondary trading of capacity down to a period of one day

Capacity transfers between suppliers are currently available, but only down to a minimum period of one month. The introduction of capacity trading down to a period of one day would have the same problems as providing short-term access to firm capacity down to a period of one day. That is, the current postalised tariff regime may need to be modified (see 2.2 above). A real-time online product would need to be developed to facilitate short-term capacity trading. The associated costs are likely to be in the region of £100,000 for development costs with an annual administration cost of similar magnitude (see 2.3 above).

Is it worthwhile asking the Shippers whether they have identified any other services that should be available under EC1775 but are not mentioned in this paper. This would give the Shippers a forum to have their say on any other issues so that they could be addressed now without any comeback on the DPOs or NIAER at a later stage.

Is it worth mentioning that a mechanism may be inserted into the DPO Codes to allow for a Shipper to request a service under EC1775 in the future.

3.0 Way Forward

All parties should recognise that the implementation of the Regulation including changes to network codes, IT systems and commercial arrangements would be costly and very time consuming for the DPOs. These costs would be recovered through the postalised tariff, pushing up costs for all users.

Furthermore it should be noted that the NI gas transmission network is currently undergoing a programme of change as the DPOs seek to rationalise the system. (Note the Authority will be consulting separately on this rationalisation process). One of the main focuses of this exercise is a move to a single balancing zone in NI. This rationalisation of the gas transmission system is set to coincide with the changes needed to facilitate the introduction of the South-North Pipeline (SNP), which the Authority has also consulted on separately. SNP is due to commence operation in October 2006 and the DPOs are keen to avoid any duplication of work given the tight timescales. Hence the two work streams of delivering a rationalised gas transmission system and integrating the SNP into the designated pipeline network have been amalgamated.

The Authority is keen that all parties prioritise their efforts on these two work streams, and will continue to work with them and industry to maximise the benefits of change to the gas transmission system at the least possible cost.

Qx. Do shippers wish to avail of any of the services described in this paper, bearing in mind the likely pricing methodology to be used for each service? We will assume that a none response means no demand for each service in question.

4.0 Responses

Responses should be received no later than []. We are happy to accept responses in written or electronic format at:

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We are also happy to meet with any party to discuss any of the issues raised in this paper.

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