Phoenix Natural Gas Ltd. Comments on the IME3 Compliance for 2015 – Capacity Allocation Mechanisms and Changes for Entry-Exit Business Rules

and

Gas Day Transition Business Rules

15th December 2014

Detailed below are the Phoenix Natural Gas Ltd. (PNGL) comments and questions on the business rules published by the Transmission System Operators (TSOs) as part of the Northern Ireland IME3 Compliance project for:

- Capacity Allocation Mechanisms and Changes for Entry-Exit
- Gas Day Transition Rules

Capacity Allocation Mechanisms and Changes for Entry-Exit Business Rules

Business Rules relating to Exit

Exit Point Capacity Ratchet (ref clauses 2.1a and 17.5) – PNGL note that the TSOs are proposing to introduce an Exit Point Capacity Ratchet mechanism where a shipper nominates and is allocated gas flows in excess of its Exit Capacity booking at an exit point and where the Distribution Network Operator (DNO) holds the exit capacity. It is proposed that the rule will apply in aggregate and the ratchet charge will be payable by the DNO.

PNGL believe the approach is completely unacceptable and we reiterate our position which has been made clear to both TSOs and the Utility Regulator on numerous occasions with regards the capacity booking obligation it currently has, that we will not accept any proposed solution which places further responsibilities on it with regards this activity. It is therefore somewhat disappointing that PNGL's views on this subject have not been taken into consideration when these business rules have been drafted.

For clarity, the reasons which PNGL believe make this approach inappropriate are set out below.

The obligation for a DNO to hold this capacity was considered appropriate by the Utility Regulator to assist the development of supply competition and to stop the hoarding of capacity by the incumbent gas supplier. PNGL supported this approach on the understanding that no additional risk to its distribution business would result. We undertake this role on behalf of gas suppliers; fulfil the many requirements of the role with no allowed costs for the activity or financial benefits received. This new proposal now places additional requirements on PNGL and adds risks to the activity which cannot be facilitated.

We note that the proposal is to apply the ratchet at aggregated level with no consideration given to how the DNO would recover these costs. For clarity, the current capacity booking is based on PNGL's best estimate of a 1 in 20 peak winters day scenario. As explained on numerous occasions the determination of an accurate 1 in 20 value is hindered by the length of time the gas network has been in existence for i.e. less than 20 years and where significant continuous year on year growth is being experienced and will continue to be experienced for a period of time, however, the last time that the PNGL distribution network overran the capacity booked occurred in 2010 during what was widely considered to be a 1 in 50 winter event, demonstrating that the methodology employed is robust. The methodology used can only determine an estimated annual capacity requirement at aggregated network level and PNGL is unable to break this total requirement down into individual shipper requirements as the gas supplier's portfolios change on a daily basis as new connections, customer switches and disconnections from the network occur. Therefore, similar to the reason why the TSOs cannot target the offending shipper responsible for the overrun, PNGL could not identify the responsible shipper. It would also be completely inappropriate for all shippers on the distribution network to have to incur what are potentially penal overrun charges for activities they are not responsible for or have no control over. Indeed it could be argued that this is barrier to entry as well as the development of supply competition as smaller market participants could be exposed to the activities of larger market participants who are potentially better placed to absorb these charges.

PNG considers that these Exit Point Capacity Ratchet arrangements might be appropriate for Shippers who do not have a licence obligation to book and hold a minimum amount of Exit Capacity, however, as already highlighted, DNOs already have an obligation to book sufficient capacity for a 1 in 20 peak winters day which should give the TSOs comfort that sufficient capacity has been secured, therefore, it is totally unnecessary to apply these rules where the DNO holds the capacity. The TSOs and Utility Regulator must accept that for as long as different rules apply to the booking of capacity for DNO shippers then any new rules developed in relation to Exit Capacity must give consideration to this difference.

Given that the TSOs have indicated that the decision to levy overrun is a regulatory one, PNGL has copied the Utility Regulator in on this response.

Aggregation of the BGEP1 and BGEP2 and Accession to the Transportation Codes - (ref clause 17. 5 28.1.4) – PNGL feel it is also worth pointing out that in determining the 1 in 20 requirements for the transmission network capacity booking, PNGL has to make an assessment of the capacity requirements split across the two exit points on the transmission system which it utilises namely BGEP1 and BGEP2 (Lisburn offtake). For the reasons described above and due to the ever changing requirements of its network as connection numbers increase the split between the exit points is an estimate primarily based on historic information. The current regime aggregates the two exit points when considering the nominations, allocations and capacity utilisation and gas suppliers operating in Greater Belfast are not required to accede to the BGE (NI) Transportation Code nor make nominations to BGE (NI) for the Lisburn Offtake. One of the primary reasons for this is that neither PNGL nor the gas supplier would be in a position to determine a specific nomination for this offtake due to the technical set up of the network. We do not see any reference to the aggregation process in the new proposed regime and therefore would question how the TSOs could even determine how an overrun has occurred if the aggregated position is not considered. We do however note that the business rules appear to indicate that Shippers will need to accede to the Code of each TSO who exit point it wishes to utilise and we would ask if this will require current and new market entrants to accede to the BGE (NI) transportation Code with these proposals.

Long term use it or lose it (ref clause 17.6) – It is proposed to amend the existing UIOLI process to apply at exit points only. PNGL would reiterate previous comments made on this product which we believe are still relevant. Consideration needs to be given to the fact that DNOs book and hold capacity based on a 1 in 20 peak winters day requirement and an assessment of actual capacity utilisation in an average year would potentially determine underutilisation of capacity on a regular basis, therefore the basis of the DNO booking must be a consideration for both the TSOs and UR when considering the application of this product.

Accession and Registration Process (ref clause 28.6) – PNGL and the Utility Regulator have developed a market assurance process for all new gas market entrants in Northern Ireland. We would point out that market entry can only be granted when the Shipper advises of completion of their accession to the Transmission Transportation Codes. We note that the business rules proposed currently conflict with this process in the following way. The Shipper wishing to operate in the PNGL Licence area must have written confirmation from the downstream transporter of a connected system that the Shipper has entered into an agreement to ship gas on the connected system. PNGL could not provide this confirmation to the shipper if accession to the Transmission Transportation Codes has not been completed. We also note that the Shipper accession process is to be separated into two distinct processes whereby a Shipper will first accede to the Code and then be required to complete a separate registration process. As the Shipper will not be able to transport gas until it completes the registration process then the DNO cannot grant market entry until this has been completed. DNOs will need confirmation that this has been completed and the market assurance process will need to consider how this can be done.

Capacity Bookings at Exit (Use of the PRISMA Booking Platform) (ref clause 3.3) – PNGL would ask for confirmation that for the purpose of making an amendment to the current capacity booking at exit the DNO will utilise the existing process by submitting the pro-forma designed for this purpose to the TSOs in line with current timescales, will not be required to register for or use the PRISMA booking platform and will not require a European Identity Code.

Gas Day Transition Rules

Contractual Review (ref clause 3.2) - PNGL note that the business rules indicate that it is the responsibility of 'shippers' to carry out their own analysis in relation to their own business processes to identify areas that may change. We assume that the TSOs include DNOs in this definition of shipper. We would therefore point out that PNGL has undertaken a review of all areas listed in the business rules and would reiterate its previously advised position that the amendment to the gas day to 5.00am at transmission level will see the transmission and distribution gas days out of step. Any requirement to synchronise the regimes will require DNO Code Modifications as well as changes in systems and processes utilised by DNOs and it is therefore essential that the workplan in place for EU compliance factors in appropriate timescales for works which DNOs need to undertake to ensure gas networks in Northern Ireland remain aligned.