



**Entry Point Registrations – Business Rules and
Introduction of Entry Capacity to Northern Ireland – Transitional
Arrangements – Business Rules Consultations
Phoenix Natural Gas Ltd. Response
29th August 2014**

This Phoenix Natural Gas Ltd. (PNGL) response includes comments on both the *'Entry Point Registrations – Business Rules'* and *'Introduction of Entry Capacity to Northern Ireland – Transitional Arrangements – Business Rules'* consultations issued by the Transmission System Operators (TSOs) on 4th August 2014.

Overview:

PNGL continues to be supportive of the NIAUR (UR) and the TSOs in delivering this EU project and understand the importance of ensuring Northern Ireland's (NI) compliance with all regulations. It is however evident to PNGL from this consultation and from the recent industry workshop that many of the solutions proposed may not be the most appropriate for NI, given the size and structure of the gas networks, but compliance with EU Regulations is considered the primary consideration for both UR and the TSOs.

In preparing this response PNGL felt it was however important to detail issues we have identified with the proposed solutions for the NI gas market, recognising there may not be alternative solutions given the requirement for EU compliance.

With regards the workplan presented at the workshop to deliver this compliance project, we note the absence of engagement with DNOs who have in PNGL's opinion a significant role to play in its delivery. Unlike the TSOs, PNGL has not been given resources or allowed costs to deliver the requirements of the EU Compliance project and it is therefore critical that a workplan is put in place for this TSO DNO interface to allow PNGL to properly assess the impact on its business. PNGL has raised this issue with both TSOs and UR on many occasions and we are therefore very disappointed that UR in particular continue to ignore PNGL's resources issue and it is only right that PNGL make UR and the TSOs aware at this point that until this issue is addressed properly PNGL's contribution going forward will be curtailed. Given the importance of this issue we have provided a copy of this response to Roisin McLaughlin of UR.

The next section of this response sets out PNGL's comments on the specific areas of both consultation papers:

Registration at an Entry Point:

PNGL are fully supportive of the proposal within the Entry Point Registration consultation paper that a DNO will not book capacity at the Entry Point for Shippers who operate in their licence area. We do however note that in the second consultation paper on the transitional arrangements for entry capacity bookings the paper adds a comment that this position is 'subject to confirmation of this approach by UR'. PNGL believe this a fundamental aspect of the move to an Entry Exit regime and it was certainly our understanding from the industry workshop that this approach was determined

to be the only real process which would work in ensuring EU compliance. PNGL strongly believe this proposal is the only option, as we will not become a Shipper on the NTS (as would be required under these new proposals) and we will not be in a position to enter capacity auctions on a Shipper's behalf. Furthermore it was made clear at the industry workshop and again referenced in the consultation paper that part of the workplan on EU compliance included consideration being given to the removal of the exit point obligation which DNOs will have under the new regime as early as 2016. PNGL would ask for confirmation on this aspect as soon as possible.

Upstream Registration Arrangements:

As mentioned above it would completely inappropriate for a DNO to book capacity at entry but we feel it is important to note that the requirement for a Shipper to become a NTS Shipper going forward may impact on supply competition in NI. The majority of Shippers who operate within the distribution networks in NI utilise the services of a NTS counterparty for gas transportation to the Moffat offtake. These new proposals no longer support this approach and will require the NI Shipper to obtain a GB Shipper licence as well as accede to the Uniform Network Code. This potentially will damage the further development of supply competition in NI, with the complexities and costs associated with operating as a Shipper in GB discouraging potential market participants from entering the market and making current market participants, particularly shippers with small or specific target markets, re-assess the appropriateness of operating in NI.

We note that the consultation paper states that these upstream registration arrangements for the NTS is outside the scope of this project. We find it disappointing that TSOs have chosen to provide Shippers with no guidance on what is possibly one of the most fundamental changes in the regime from a Shipper perspective and, as mentioned above, the potential impact this has on supply competition. As a minimum we would have thought it useful if guidance had been offered on timescales for completing such a process e.g. time involved in applying for and obtaining a GB shipper licence and accession to the Uniform Network Code etc. If this is considered inappropriate by TSOs then we would suggest that this is perhaps an area UR could provide guidance on as part of this EU compliance project.

NI Balancing Point:

We note that TSOs are keen to have consultees' views on whether they would trade at a NI balancing point. The requirement for a NI balancing point is in PNGL's opinion an example of a proposal where its appropriateness for NI, given the current and potential market size, is questionable. We assume that the request for views is simply to gauge when this may be required, rather than if it should form part of the future regime, as it would appear that this is requirement for EU compliance.

Initial Entitlement of Entry Capacity - Transition from Firm Capacity to separate Entry and Exit Capacity:

PNGL note that one of the proposals for initial entitlements is that the Shippers on DNO networks will have allocated to them the firm capacity held on their behalf by a DNO. PNGL have the following observations to make and questions to ask regarding this proposal:

DNOs are obliged to book capacity to meet the requirements of a 1 in 20 peak winters day for firm demand on its network. This is not determined for individual Shippers; the portfolio of each Shipper potentially alters daily as customers are added to the network, customer switching between Shippers occur or disconnections from the network are undertaken. The capacity at distribution

network level for each Shipper is determined as the sum of its capacity for each SMP within its portfolio on any given day i.e. an instantaneous peak day capacity requirement. PNGL would therefore like to understand how the TSOs would propose to allocate the 1 in 20 peak winters day between Shippers?

Furthermore, as detailed in every annual Network Forecast statement produced by PNGL to date, the determination of a 1 in 20 is extremely difficult given that the PNGL network has not been in operation for 20 years and it continues to experience significant growth annually, therefore, the 1 in 20 is an estimate only using assumptions such as the instantaneous peak load factors assumption and total forecast volumes for the PNGL Network as the basis of the calculation. There is no requirement to divide this capacity booking between Shippers. In addition it should also be noted that the Postalised Capacity charge for a DNO network is expressed as a commodity charge and is recovered from Shippers on a monthly basis based on its commodity throughput and not on its individual capacity requirements at either Transmission or Distribution level.

PNGL would also point out that the capacity booking by a DNO is for firm demand but the Postalised capacity charge expressed in commodity terms is recovered based on total volume throughput on the distribution network i.e. includes volumes relating to interruptible SMPs.

The consultation paper does not make it clear the basis of the entry capacity bookings. Will shippers have a similar obligation to that held by the DNO to hold a 1 in 20 peak day requirement or based on distribution capacity requirements for a given day? Would any obligation to book capacity be defined in licence? How would the Shipper determine this?

Capacity amounts required by a Shipper at entry and assigned to a Shipper at exit by the DNO could potentially be significantly different on any given day.

PNGL note that the initial entitlement of entry capacity will be determined in March 2015. As the DNO will still not have completed the application process for any required change in its booking on transmission level for gas year 2015 / 2016 then this assessment will be based on capacity requirements for this gas year determined by DNOs in March 2014 and may not reflect the current views of DNOs on the total capacity requirements for the Shippers operating on its network. Furthermore, the portfolio of Shippers operating on the PNGL network is ever changing and new Shippers are continuing to enter the market, therefore, any assessment of Shipper split applied in March 2015 will potentially be out of line with actual requirements come October 2015.

Credit Support requirements:

PNGL note that the consultation paper makes references to Shippers holding less credit support with DNOs under these proposals. This is obviously based on the assumption that the exit tariff will be lower than the current Postalised Capacity charge expressed in commodity terms. This change in process will require a review of each Shipper's credit support levels by PNGL; this will need to be co-ordinated with any review that the TSOs will undertake to ensure Shippers have sufficient credit support in place with PNGL and ensure that higher levels of credit support to that required are not in place with both TSOs and PNGL for a period of time. We would like the TSOs to confirm the proposed timescales for their review. We also feel it is important to emphasise that increases in credit support on the transmission network is not necessarily equal and opposite to the reduction on the distribution network as both operators employ very different methodologies in the determination of credit support levels for their respective networks. There are no proposals to amend the distribution network's methodology in this area.

Applications for Capacity in future Gas Years made during Gas Year 2014-2015:

PNGL would request clarity on the timescales set out in this section of the consultation paper. The paper indicates that the timescales for the existing Code procedures will be used for the capacity application process going forward, with Shippers able to apply for future capacity requirements for the following gas years up to the Mid-Year Date i.e. 30th April 2015. The paper then goes on to state that the TSOs will notify Shippers of their allocations of capacity for future gas years resulting from this application process by 31st March 2015.

When considering appropriate timescales for any application process the TSOs should be mindful of the DNOs obligation under licence to consult upon its forecast transmission network capacity with Shippers in February each year and publish its final Forecast Capacity Statement by the 21st March. The DNO will only then be in a position to make any application for exit capacity post completion of this licence obligation process.