Final Modification Report
Re Modification Proposal No.11

Introduction

Premier Transmission Limited (PTL) has prepared this report in accordance with section 8 of its Transportation Code Modification Rules.

PTL has received, from Phoenix Natural Gas Ltd, (PNGL), modification proposals to change various sections of the PTL Transportation Code (The Code). PNGL proposes an amendment to the method in which Exit Point Tolerances, (EPT), are calculated under the Code. The proposed modification was issued on the 1st Nov 2005 and is available on www.premier-transmission.com (Code Modifications).

PTL’s Opinion

PTL agrees with the modification proposal made by Phoenix Distribution. A Shippers EPT defines the limit upon which the Shippers Code Charges moves to a penal rate. The EPT provides an incentive for Shippers to make accurate nominations to match their forecast take. By remaining within tolerance, penal Code Charges are avoided. The incentive for Shippers to remain within tolerance is in place so that PTL can maintain pipeline balance and reduce the likelihood for balancing actions on SNIP. Therefore PTL agrees that a Shippers EPT should be accurate and be based upon a shippers individual downstream load.

PNGL proposes that new shippers requesting an EPT and tolerance are awarded the existing tolerance at an exit point until the Mid Year date or the end of the Gas Year, whichever is earlier. The new shippers EPT would then be recalculated at the Mid Year or Gas Year End via the shippers revised Downstream Load Statement. With the advent of new market opening, future market opening and market growth at distribution exit points, Shippers supplying downstream distribution loads may have an ever changing portfolio of end users and subsequently an ever changing EPT. PTL requires the most accurate Downstream Load Statement from Shippers to ensure system balance. Therefore PTL intends to amend PNGLs proposal to include the following;

1. Before PTL issues an EPT to a new Shipper, that Shipper shall provide a Downstream Load Statement to PTL upon which their individual EPT shall be calculated.
2. PTL shall require all Shippers at the distribution exit points, Phoenix Exit Point 1, Phoenix Exit Point 2 and Stranraer to submit a revised Downstream Load Statements bi-annually, i.e. before the Mid year date and before the start of the new Gas Year.
3. PTL shall inform a new shipper whether or not they are required to submit a revised Downstream Load Statement at the Mid Year date or before the start of
the new Gas Year, immediately preceding the date of their initial Downstream Load Statement submission.

As a shippers Downstream Load Statement is made up of existing and forecast loads, PTL shall have the right to request a shipper to submit to PTL details of their actual downstream load for a given time period.

Third Party Representations Made

PNGL Supply
I am writing on behalf of Phoenix Supply in response to the modification proposal referenced above. We are in favour of this modification because it provides a more equitable system to determine levels of exit point tolerance. We believe that exit point tolerance should ultimately be determined by the downstream load the new shipper will supply.

The modification proposes that the new shipper is granted the existing tolerance before submitting a revised load statement after a period of time. How much downstream load data do you believe is required to make a fair estimation of a new shipper's tolerance? Also, once a tolerance is calculated, will this be revised in the future if the downstream load pattern was to change?

The PNGL Supply comments were submitted before the Initial Modification Report was issued and many of the queries have been answered. A new Shipper will be provided with an EPT based upon their Downstream Load Statement provided during their Exit Point Registration. The PTL proposals that apply to all Distribution Shippers are not based upon a Shipper reaching a threshold load quantity but rather the information provided on the Downstream Load Statement for a given period. The load statement is based upon a Shippers existing and forecast customers and will be reviewed bi-annually. There is no further drafting required in the PTL Code.

Viridian Energy Supply, VESL
On the 1st Nov 2005 PTL circulated a proposed Modification (Modification Proposal 11) as drafted by PNG. In this document PNG contend:
(i) the current Code is “unfair” as it allocates the same exit point tolerance to each Shipper regardless of the make-up of its customer base.
(ii) Shippers of gas to larger customer only should be given a smaller exit point tolerance than Shippers to a mixture of larger customers and domestic users
(iii) PNG will retain the ability to offer 17.23% tolerance to all customers while "other" suppliers to larger I&C customers only would be limited to circa 10%.

Essentially Phoenix Natural Gas (PNG) do not appear to want "other" Suppliers who are not supplying domestic customers to avail of the same level of tolerance (flexibility) as PNG enjoys even though that is what "other" suppliers appear to be entitled to do under the current PTL Code.
The principle problem with what Phoenix is proposing is that it essentially discriminates against a Shipper with a smaller exit point tolerance when such a Shipper competes with PNG for a particular customer. In such a situation the same Customer finds it is being offered two different levels of flexibility and logic would dictate the customer will chose the Shipper offering the greater degree of flexibility (so as to avoid paying balancing charges). The Shipper with the larger exit point tolerance (in this case PNG) can offer this “extra” tolerance to the same customer as a Shipper with a smaller exit point tolerance, regardless of whether the customer in question is a large I&C customer, a smaller I&C customer or a domestic customer. Thus the smaller exit point tolerance Shipper is very likely to fail to win many customers as the larger exit point tolerance shipper will use the “extra” tolerance as a selling point in its favour. The effect of this is to prevent gas market opening in Northern Ireland as there would exist a very uneven “playing field” between shippers/suppliers.

Another problem with what Phoenix is proposing is that it does not recognise the fact that 2 Medium and smaller I&C customers, as well as domestic users are not currently “eligible” in the Northern Ireland gas market. Indeed there is no firm date(s) agreed for such market opening. Hence suppliers “other” than Phoenix currently cannot sign up such customers even if they wished to.

Allowing PNG the ability to offer more flexibility than any other supplier to I&C customers is obviously anti-competitive and will discourage customer movement hence stifling gas market opening in Northern Ireland. It is argued to be highly inappropriate to allocate End Users flexibility to Shippers due to the fact that Shippers can then decided to do with this flexibility as they wish. As End Users are the parties who ultimately pay all the costs for the existence of and maintenance of the gas transportation systems in Northern Ireland it is considered more appropriate to allocate any system “flexibility” the PTL (or the PNG) system has should in the first instance be “allocated” to End Users. To allocate the total flexibility that the system has to End Users fairly it is thought prudent to divide up the End Users into Categories and allocate each End User within each individual category the same level of flexibility. Obviously it would be inappropriate to allocate more flexibility to I&C Customers than to domestic customers as I&C Customers would be expected to get their usage predictions much more accurate than domestic users, and hence the normal approach would be to allocate less flexibility to higher end gas volume users and allocate more flexibility to lower end gas volume users. This methodology is also appropriate as it allocates the least amount of flexibility to the users who would have the greatest negative effect on the stability of the gas system if they got their nominations incorrect. (Indeed the basis of this methodology is apparently supported by PNGs modification that I&C users would only be able to avail of circa 10% (actual value should be independently verified) whereas the average for the system is circa 17.23% leading one to assume that the flexibility for domestic users is some value greater than 17.23%).

Once End Users are split into categories and a tolerance ("flexibility") is allocated to each category than all potential suppliers to a particular customer must offer the SAME flexibility to the End User as the End User is deemed already to have a set amount of flexibility. Once such a level playing field has been created for all supplier in relation to flexibility, suppliers will be forced to compete on price in the main which is what will lead to more competitively priced gas in Northern Ireland.
The concerns raised by PNG are understood but it is argued Modification proposal 11 as put forward by PNG is inappropriate as it would not create a level playing field for all suppliers and would in fact favour PNG over other Shippers, and would discourage customer switching. The alternative proposal as outlined above would address the same concerns as raised by PNG but in a manner that would create a level playing field for supplier (in terms of flexibility) and encourage supplier to offer the best priced gas possible which ultimately is in the interest of End Users and the Northern Ireland economy as a whole.

The current methodology for determining a Shippers EPT is dependant upon that Shippers actual and forecast customer load. A Shipper provides a Downstream Load Statement to PTL that identifies what tolerance band each of their customers are in. The band for low gas volume users has a higher tolerance as the low volume user gas nomination is more difficult to manage accurately. In turn the band for high volume gas users has a lower tolerance as the high volume gas user nomination is less difficult to manage. A Shipper solely supplying low volume gas users will have the same ability to stay within tolerance, (avoiding penal code charges), as a Shipper supplying high volume gas users and therefore there is no flexibility difference.

For Shippers who supply both high and low volume gas users, PTL determines from the Downstream Load Statement the weighted average of that Shippers customer tolerance and subsequently that Shipper again will have the same ability to manage their aggregate nomination to remain within tolerance.

It is not correct for Shippers with a higher EPT to offer more flexibility to customers than Shippers with a lower EPT as both have the same ability to remain within tolerance and avoid penal code charges. However it is not in PTLs Relevant Objective to police how Shippers sell gas to customers.

**Firmus Energy**

BGE (NI) Supply (Trading as firmus energy) would like to offer the following comments on Modification Number 11 – Proposal by Phoenix Natural Gas (PNG) – Amendment to Exit Point Tolerances Calculation.

**Overview**

firmus energy agrees with the proposal to modify the EPT calculation process to be shipper portfolio specific. In the short run firmus believe that a bi-annual review would be a reasonable modification for shippers.

However in the longer term, as a downstream Shipper’s ability to change their portfolio increases through market opening’s new connections etc, a Shipper whose portfolio changes over a short period of time would be at a disadvantage. An EPT not reflective of the Shippers load presents a risk to Shippers, who could face punitive second tier imbalance charges though no fault of their own.

*Example:* A Shipper has an EPT calculated on a large industrial load and then adds a large number of smaller I&C / domestic customers, but still has a low EPT based on their
previous flat load requirements, in the large industrial sector. This would leave a shipper potentially accruing penal charges until the revision of the EPT occurred. Similarly a Shipper losing smaller customers may have a large EPT, no longer reflecting their flat load, thereby reducing their incentive to balance.

Alternative Method

Firmus would like the modification review panel to consider the possibility of an evergreen EPT.

This would mirror the approach taken by the Transporter (BGE) in the Republic of Ireland in the Unified Code of Operations (Section E 1.7 Shipper Portfolio Tolerances). This would require the calculation of a Shippers EPT on a daily basis through an approved formula.

Review

Given that market opening downstream is based on decreasing annual quantities and the decision on market opening is currently pending with DETI, firmus energy believe the consideration of an evergreen EPT would be beneficial to all players.

Conclusion

firmus energy supports the modification, and hope that you would consider our comments in relation to further improvements.

PTL agrees that an EPT determined on a daily basis would provide for more accurate nominations. The downstream market is not fully open and there is currently a small number of Shippers engaged to supply the existing open market. This combined with the costs associated with changing the GTMBS to calculate a daily EPT may not currently provide for a cost effective solution. An evergreen EPT may be a long term benefit when the markets are fully open and there are numerous distribution Shippers.

BGE(NI)

1. BGE(NI) Transmission understand that the purpose of Proposed Modification 11 to the PTL Transportation Code, proposed by Phoenix Natural Gas Ltd., is to amend the method in which Exit Point Tolerances (EPT) are calculated under the PTL Code.

2. BGE(NI) Transmission understand that the intention of the Modification is ensure that the EPT applied to a Shipper is based upon the Shippers individual Downstream Load Statement and that different EPT’s will be applied to multiple Shippers at Phoenix Exit Points 1 & 2 and Stranraer. We also understand that EPT’s will be recalculated on a 6-month basis upon receipt of Shippers revised
Distribution Load Statements. We note that this will involve additional administration for the Transporter and will require systems modifications to GTMBS to reflect this.

3. BGE(NI) Transmission do not propose amending the BGE(Northern Ireland) Transportation Network Code at this time as multiple Shippers with different Downstream Load Statements at a single Exit Point is not currently an issue for the BGE(NI) Code. However, BGE(NI) Transmission will review the operation of this Modification when implemented by PTL.

PTL acknowledges that there will be additional Transporter administration. PTL has contacted its software provider and has determined that individual Shipper tolerances can be entered on GTMBS with minimal system change and cost.

Proposed Text Amendments

Clause 4.2.1

4.2.1 Premier Transmission shall, within 10 Business Days of receiving a Downstream Load Statement in respect of an Exit Point in accordance with section 17.7, calculate a tolerance, expressed as a percentage, at that Exit Point for a Shipper or Prospective Shipper using the information contained in the Downstream Load Statement as set out below (a Shipper’s “Exit Point Tolerance”):

Clause 17.7

17.7.1 A Shipper shall be required to provide Premier Transmission with a statement in the Prescribed Form (a “Downstream Load Statement”) in respect of an Exit Point before it may obtain an Exit Point Registration in respect of that Exit Point.

17.7.2 A Shipper at Phoenix Exit Point 1, Phoenix Exit Point 2 or Stranraer Exit Point shall provide PTL with a revised Downstream Load Statement 15 Business Days before each Mid Year date and 15 Business Days before the end of the Gas Year. PTL shall inform any new Shipper whether or not they are required to submit a revised Downstream Load Statement in accordance with this clause 17.7.2 immediately preceding the date of their initial Downstream Load Statement submission.

17.7.3 A Shipper or a Prospective Shipper wishing to become a Shipper shall, if it becomes aware that any information in a Downstream Load Statement is incorrect, provide Premier Transmission on 10 Business Days notice with a revised Downstream Load Statement which is accurate. References in this Code to a Downstream Load Statement are to the latest revised Downstream Load Statement from time to time.
17.7.4 A Downstream Load Statement, shall contain the End User’s statement of the maximum quantity in MWh/day which may reasonably be required to supply the relevant Downstream Load Category.

17.7.5 A Shipper shall, if requested by PTL, provide to PTL any information relating to their actual Downstream Load, over a given period of time.

**Likely Implementation Date**

PTL suggest that the proposed implementation date is either 17th February 2006 or ten business days after the Authority has made its determination

**Conclusion**

PTL agrees that a Shipper should have an exit point tolerance reflecting their individual downstream load. Although PTL has amended PNGLs proposal, there is no change to the underlying principal that a shipper should have an individual EPT. This combined with obtaining distribution Down Stream Load statements on a more regular basis provides for system balance, reduces the likelihood of balancing actions and therefore achieves the Relevant Objective.

Currently the drafting in PTLs Code regarding EPT and Downstream Load Statements is similar to BGE(NI)s. The modification proposals above do not impact directly on BGE(NI) as an operator but BGE(NI) may implement similar proposals in the future to their Code.