Dear Billy,

Please find attached Phoenix Natural Gas’ formal proposal for modifications to the PTL network code, which are required to facilitate the introduction of a Distribution Code in Greater Belfast in order to deliver the framework for supply competition.

As a result of discussions with Premier Transmission over the past 12 months, Phoenix has made various changes to its Distribution Code so as to minimise the scale and impact of the consequential modifications that are needed to the PTL Code.

The remaining requirements for proposed modifications are set out below together with our suggestions for legal drafting.

A Description of the nature and purpose of the modification

1 Modifications to the PTL nomination rules are needed to facilitate the matching of nominations across the transmission/distribution interface. This recognises that the upstream Shipper and downstream Supplier may be different legal entities:

   a. PTL Nominations and Renominations at Phoenix Exit Point No1 should identify the downstream Supplier under the Distribution Code

   b. PTL Shippers at Phoenix Exit Point No 1 should be required to make Nominations and Renominations promptly to match the quantity Nominated or Renominated by the downstream Distribution Supplier.

   c. PTL should have the right to reject a Nomination or Renomination at Phoenix Exit Point No1 which:

      i. does not identify the downstream Supplier, or

      ii. is not equal to the Nomination or Renomination of the downstream Supplier
d. A mismatch at Phoenix Exit Point No1 could occur as a result of a mismatch at Moffat, in which case a Phoenix Exit Point No1 mismatch needs to be tolerated.

Phoenix would be interested in knowing whether PTL could grant Phoenix access to GTMBS so that Phoenix could check that PTL and Phoenix Nominations and Renominations at Phoenix Exit Point No1 are matched. Phoenix might then advise PTL of any mismatches which it determines.

2 After the Day, the Exit Quantity at Phoenix Exit Point No1 should be allocated so that the allocations of upstream Shipper and downstream Supplier are matched across the transmission/distribution interface. It is proposed that Phoenix, on behalf of PTL Shippers, will advise PTL of the Reallocations which are necessary for this purpose. We propose adding to the existing PTL provisions that Reallocations at Phoenix Exit Point No1 are subject to written approval from Phoenix. This is consistent with the rules which already apply at Phoenix Exit Point No2 and No3 in respect of BGE(UK).

3 In circumstances of a Capacity Reduction affecting Phoenix Exit Point No1, prompt action is required to reduce gas consumption in the Greater Belfast Distribution Area. In a commercial regime where there may be different upstream Shippers/downstream Suppliers, it is important to target reductions accurately, first to those Suppliers serving interruptible consumers and then firm load shedding according to the prescribed Priority Criteria. This can only be achieved if a Flow Order affecting the Phoenix Exit Point No1, is addressed to Phoenix and copied, for information only, to PTL Shippers who are active at Phoenix Exit Point No1.

It is then, pursuant to the Distribution Code, up to Phoenix to determine which consumers will be interrupted to comply with the Flow Order and advise the relevant Phoenix Supplier(s). The relevant Phoenix Supplier(s) will inform the affected consumers and ensure their upstream PTL Shipper renominates accordingly.

4 The PTL Code provides a 5 hour lead time for Shippers to comply with a Flow Order issued at D-1 and a 2 hour lead time for compliance with Flow Order issued within day. However, it is not practical for interruptible loads that are connected to a distribution network to comply with a 2 hour lead time from the upstream transmission pipeline. By comparison, the GB Network Code interruption arrangements stipulate a 5 hour lead time.

Phoenix propose that an exception to the 2 hour within day lead time rule should apply in the case of Phoenix Exit Point No1, whereby the allowance is increased to 5 hours. This would allow Phoenix a period of 1 hour to select the consumers that will be interrupted to match the flow reduction amount and advise relevant Suppliers. Following notification of the Supplier, the Phoenix Distribution Code allows 4 hours for affected consumers to be contacted and stop using gas; these rules contain strong incentives for compliance. The overall lead time would therefore be $1 + 4 = 5$ hours.
If within 90 minutes of issuance of a Flow Order to Phoenix, PTL Shippers have failed to Renominate such that the aggregate flow meets the Flow Order requirement, then Phoenix proposes that PTL should have the right to issue a Flow Order directly to PTL Shippers.

At present, all the Phoenix activities, distribution, supply and transmission, are carried out as part of a single legal entity, Phoenix Natural Gas Limited, which holds a Supply Licence for the purpose of its supply business. Phoenix wishes to provide for the possibility that its distribution and supply activities may in future be performed by separate legal entities.

It has been agreed that Phoenix Distribution books transmission capacity on the postalised transmission system on behalf of all Shippers offtaking gas at Phoenix Exit Point No1. The cost of the capacity is recovered from Suppliers as part of the distribution tariff. As Phoenix Distribution does not “ship” through the transmission capacity in its own right (ie. does not incur postalised commodity charges), OFREG has said that Phoenix does not require a Supply Licence to fulfill this function.

A legally separated Phoenix Distribution would continue to book transmission capacity for which purpose it will need to be party to the PTL and Phoenix Transmission Codes. A Licence is a pre-requisite for accession to the PTL Code but Phoenix Distribution is not obliged to have a Supply Licence. Accordingly, Phoenix proposes a change to the PTL Code so Phoenix Distribution could accede to the PTL Code and book capacity at Phoenix Exit Point No1 without requiring a Supply Licence.

How the modification better facilitates the relevant objective

The EC gas directive, 2003/55/EC requires that, from July 2004, non domestic consumers can choose their gas supplier and, from July 2007, that choice is extended to all gas consumers.

Supply competition is expected to result in consumer benefits. In particular, the theory of supply competition expects that greater economies and efficiencies in sourcing gas will pass through to consumers as lower prices and consumers will also benefit from a wider range of improved services from Suppliers. These benefits are expected to encourage existing consumers to use more gas and attract new consumers to switch to gas.

Any increase in gas market growth that may result from supply competition will contribute to improve the economies of scale and utilisation of gas infrastructure in Northern Ireland.

The facilitation of supply competition contributes directly to the relevant objective in the PTL licence as this relates to the “operation of efficient and economic arrangements” within the postalised regime.

The sections of the Transportation Code that require amendment

The sections requiring amendment are:
1) paragraph 2, nominations
2) paragraph 3, allocations
3) paragraph 6, capacity reductions and emergencies
4) paragraph 17, accession to the Code

D The date proposed for implementation

1st August 2005

Yours sincerely,

Ivan Bell
Commercial Operations Director,
Phoenix Natural Gas

c.c. Kevin Sheils Ofreg
Proposed text amending the Transportation Code

SECTION 2. NOMINATIONS

Amend section 2.3.1 by inserting new sub-section (e) and renumbering sub-sections (f) and (g) accordingly, to read as follows:

"(d) specify ….;

(e) if the Nomination is a Phoenix Exit Point No 1 Nomination, specify the identity of the Phoenix Supplier(s) which will make a nomination(s) in respect of the delivery of the Nominated Quantity to the Phoenix Distribution System;

(f) if the Nomination is a Phoenix Exit Point No 3 Nomination or ….; and

(g) specify …."

Add new paragraph 2.4.5 to read as follows:

"2.4.5 Where a Phoenix Supplier submits a nomination in respect of the delivery of gas to the Phoenix Distribution System (pursuant to the Phoenix Distribution Code) the Relevant Shipper shall as soon as reasonably practicable following notification from the Phoenix Supplier submit a Nomination to Premier Transmission pursuant to section 2.3.1 in respect of the Phoenix Exit Point No 1 in relation to which the Nominated Quantity is the same as the quantity nominated by the Phoenix Supplier for delivery to the Phoenix Distribution System."

Add new section 2.5.4(e) to read as follows:

"(e) subject to paragraph 2.5.6, if the Nominated Quantity under any Nomination in respect of the Phoenix Exit Point No 1 differs from the nominated quantity under a nomination submitted by the Phoenix Supplier (pursuant to the Phoenix Distribution Code) for the delivery of gas to the Phoenix Distribution System."

Add new section 2.5.6 to read as follows:

"2.5.6 [Premier Transmission shall not be entitled to reject a Nomination pursuant to section 2.5.4(e) where the Nomination is submitted pursuant to section 2.7.2.]

Add new paragraph 2.9.5 to read as follows:

"2.9.5 Where a Phoenix Supplier submits a renomination in respect of the delivery of gas to the Phoenix Distribution System (pursuant to the Phoenix Distribution Code) the Relevant Shipper shall as soon as reasonably practicable following notification from the Phoenix Supplier submit a Renomination to Premier Transmission pursuant to section 2.8.1 in respect of the Phoenix Exit Point No 1 in relation to which the Nominated Quantity is the same as the quantity renominated by the Phoenix Supplier for delivery to the Phoenix Distribution System."

Add new section 2.10.6 to read as follows:

"2.10.6 [Premier Transmission shall not be entitled to reject a Renomination pursuant to section 2.10.3(b) where the Renomination is submitted pursuant to section 2.11.2.]"
SECTION 3. ALLOCATIONS

Add new paragraph 3.6.3(c) to read as follows:

"(b) ….; and

(c) in the case of a Reallocation of gas at Phoenix No Exit Point No 1 Premier Transmission receives Phoenix’s written approval of such Reallocation before 16:00 on D+5."

SECTION 6. CAPACITY REDUCTION AND EMERGENCIES

Add new section 6.2.6 to read as follows:

"6.2.6 Where Premier Transmission issues a Flow Order on D-1 in respect of Phoenix Exit Point No 1:

(a) the Shippers shall not be required to comply with the Flow Order unless and until the circumstances in paragraph (c) apply;

(b) Premier Transmission shall notify Phoenix of the issuance of a Flow Order (and provide Phoenix with relevant details thereof);

(c) in the event Shippers have not within 1.5 hours of the issuance of the Flow Order submitted Renominations to Premier Transmission in relation to the Phoenix Exit Point No 1 for quantities which in aggregate are consistent with the requirements of the Flow Order, PTL shall notify Shippers, and Shippers shall be required to comply with the Flow Order within 3.5 hours of such notification."

Add new section 6.3.6 to read as follows:

"6.3.6 Where Premier Transmission issues a Flow Order on D in respect of Phoenix Exit Point No 1:

(a) Shippers shall not be required to comply with the Flow Order unless and until the circumstances in paragraph (c) apply;

(d) Premier Transmission shall notify Phoenix of the issuance of a Flow Order (and provide Phoenix with relevant details thereof);

(c) in the event Shippers have not within 1.5 hours of the issuance of the Flow Order submitted Renominations in relation to the Phoenix Exit Point No 1 for quantities which in aggregate are consistent with the requirements of the Flow Order, PTL shall notify Shippers, and Shippers shall be required comply with the Flow Order within 3.5 hours of such notification."

Amend 6.4.3 to read as follows:

"A Shipper shall, notwithstanding any other provision of the Code but without prejudice to the generality of section 2.2.3 comply with a Flow Order:

1 Should PTL be required to notify Shipper circumstances in (c) apply?

2 Could be combined with new paragraph 6.2.6 and repositioned.

3 Query how a Shipper ‘complies’ with a Flow Order as the effects under paragraph 6.2.3 and 6.3.3 do not seem to require the Shippers to take any positive action.
(a) within 5 hours if the order is issued on D-1, and subject to paragraph (b), within 2 hours if the order is issued on D.

(b) where the Shipper has submitted a Nomination in relation to Phoenix Exit Point No 1 and such point is identified in the Flow Order, within 5 hours if the order is issued on D.”

Amend new section 17.4.6 as follows:

"17.4.6 Section 17.4.5 shall not apply in respect of an application by Phoenix for an Exit Point Registration in respect of Belfast Exit Point No 1."

APPENDIX 1 DEFINITIONS AND INTERPRETATION

Amend definition of “Phoenix System” to read as follows:

“Phoenix Transmission System” means the gas transmission pipeline …. at the Carrickfergus Connected Systems Point and the Phoenix Distribution System at the Belfast Network Exit Point.”

Add new definitions positioned alphabetically, to read as follows:

“Phoenix Distribution Supplier” means a person shipping gas on the Phoenix Distribution System;

“Phoenix Distribution System” means the gas distribution pipeline owned by Phoenix which is connected to the Phoenix Transmission System at the Belfast Network Exit Point;

“Relevant Shipper” means, in relation to a Phoenix Supplier, a Shipper [holding an Exit Point Registration in relation to the Phoenix Exit Point No 1 and] offtaking gas from the Transportation System at such point which such gas is treated for the purposes of the Phoenix Distribution Code as being gas delivered to the Phoenix Distribution System by such Phoenix Supplier;