

**THE COMMISSION FOR ENERGY REGULATION
AN COIMISIÚN UM RIALÁIL FUINNIMH**

**REVIEW OF NATURAL GAS MARKET
ARRANGEMENTS:**

PROPOSED ADVISORY GROUP



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

CER/02/101

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1. INTRODUCTION

The Commission for Energy Regulation (“the Commission”) published its Natural Gas Policy Framework on 19 July 2002.¹ In it the Commission identified a number of key areas for further action.

The first of these is the “Review and development of market arrangements including gas balancing, trading rules, access arrangements, Code(s) of Operations and metering.”

To assist the Commission in its review, it proposes to establish an appropriate advisory group that will represent the views of the gas industry to the Commission. The main purpose of this consultation document is to set out the proposed terms of reference for this group, the proposed membership and some idea of the likely timetable for the setting up of the review process.

Separately, the Commission is intending to circulate a more detailed review of the principles concerning revisions to the current market arrangements. This will be available in time for interested parties to consider before responding to this current document. In any case the advisory group will discuss this document when it first meets.

This Consultation Document is structured as follows:

- ?? Section 1: Introduction;
- ?? Section 2: Background;
- ?? Section 3: Terms of Reference for the Gas Market Advisory Group (“GMAG”);
- ?? Section 3: Membership of the Advisory Group;
- ?? Section 4: Expected timetable for review process; and
- ?? Section 5: Comments

All interested parties are invited to comment on the Consultation Document **no later than Friday 23 August 2002**. Comments on the Consultation Document should be sent to:

¹ “Natural Gas Policy Framework” published by the Commission for Energy Regulation (CER/02/83) 19 July 2002

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Responses to the Consultation Document should preferably be in electronic form.

2. BACKGROUND

The Commission has made clear its intention to conduct a review of the current market arrangements for the natural gas market in Ireland in the recently published Natural Gas Policy Framework². The main areas for review are likely to include, but not necessarily be limited to:

- ?? Gas transportation services to be offered (firm and interruptible);
- ?? Terms and conditions for access (e.g. transmission and distribution transportation agreements);
- ?? Capacity trading;
- ?? Balancing regime (time period e.g. daily; location e.g. entry/exit);
- ?? Nominations and scheduling;
- ?? Gas balancing (e.g. trading of imbalances); and
- ?? Gas storage.

To assist the Commission in its review of the above issues and others as they arise, it is proposing to establish a Gas Market Advisory Group (“GMAG”). The rest of this document sets out the proposed Terms of Reference for the GMAG, the proposed membership including the means by which it will be selected, and the likely timetable for setting up the review process.

3. TERMS OF REFERENCE

3.1. Duties and Functions of the Commission

The proposed Terms of Reference have been drafted against the background of the Commission’s main duties and functions together with the objectives it has set out in the Policy Framework.

The Commission has a number of functions and duties including:

1. To promote safety and efficiency on the part of natural gas undertakings;
2. To secure that there is sufficient capacity in the natural gas system to enable reasonable expectations of demand to be met;
3. To secure the continuity, security and quality of supply of natural gas;

4. To promote competition in the supply of natural gas; and
5. To advise the Minister on the development of the gas industry.

In carrying out its functions, the Commission will always keep in the forefront its duties under the 2002 Act: (1) to protect the interests of final customers of gas and electricity or both, as the case may be and (2) not to discriminate unfairly between holders of licences or consents and BGE or between applicants for consents or licences.

The Commission will oversee the extension of competition in gas supply and continue the process of restructuring and reform of the gas industry. In taking on these new responsibilities, the Commission has the following objectives in mind:

- ?? To promote competition in gas supply by facilitating the entry of players into the gas market, ensuring access to the gas network on a transparent and non-discriminatory basis, to encourage the efficient operation of the gas industry.
- ?? To ensure, at the same time, the development and maintenance of a safe, secure, and reliable system for the supply of gas, which meets appropriate performance standards and where investment is based on appropriate commercial criteria;
- ?? To provide transparent price signals to consumers and gas market players to enable efficient matching of gas supply to consumer demand for gas;
- ?? To provide a framework that encourages investment in the gas industry and secures that there is sufficient capacity in the gas system to enable reasonable expectations of demand to be met; and
- ?? To ensure that any market arrangements for the gas industry are consistent with the competitive market arrangements for the electricity industry.

3.2. Proposed Terms of Reference

The proposed Terms of Reference are set out below. The Gas Market Advisory Group is asked:

1. To assist the Commission for Energy Regulation in its review and development of market arrangements including but not limited to gas balancing, trading rules, access arrangements, Code(s) of Operations and metering;

² “Natural Gas Policy Framework” published by the Commission for Energy Regulation (CER/02/83) 19 July 2002.

2. To discuss and make recommendations on the principles, the detailed business rules and any necessary legal documents that should govern proposed changes to gas market arrangements;
3. To represent to the Commission the views of all parties operating in each part of the gas industry through appropriate representative channels; and
4. To set up from time to time appropriate working groups to discuss specific areas of work and to review membership of the advisory group as appropriate to take account of changes in the gas industry.

It is important to emphasise that

- ?? the GMAG will not have specific powers to implement changes to market arrangements as such, those powers will reside at all times with the Commission and are as set out in the relevant parts of the 2002 Act.³ As the work of GMAG progresses, the Commission will continue to take account of representatives' views but will make final decisions after weighing all the evidence.
- ?? the work of the GMAG will be *in addition to* that of the existing Modification Panel concerning the current Code of Operations. The latter will continue to meet on a regular basis to ensure continuity and appropriate development of existing arrangements.

4. MEMBERSHIP OF THE ADVISORY GROUP

In undertaking its review of market arrangements, the Commission is conscious of the complexity of the task ahead and the likely effort that will be required. In proposing the membership of the advisory group, the Commission has born the following principles in mind:

- ?? The need to understand the views of parties that operate, or intend to operate, in *all* parts of the gas market in Ireland;
- ?? The need to work efficiently and effectively in order to complete the review and put in place new arrangements in a timely manner; and
- ?? The need to recognise that participation in the advisory group will of necessity be challenging and time consuming for those that agree to serve.

Bearing these principles in mind, the Commission proposes that the advisory group should consist of **eight** members together with the Commission and its advisers. The eight representatives would be drawn from the main constituent parts of the industry as follows:

1. **Gas producers** – 1 representative;
2. **Gas storage operators** – 1 representative;
3. **Gas transmission operators** – 1 representative;
4. **Gas distribution operators** – 1 representative;
5. **Gas suppliers and shippers** – 4 representatives

The Commission is aware that there are more parties and organisations currently operating in the gas industry in Ireland than indicated by the numbers proposed for each constituency. However, it is strongly of the view that to enable the advisory group to work effectively and efficiently, a small focussed group is the most appropriate means to carry on the important work required.

The Commission asks that those parties that predominantly operate⁴ in each of the five “constituencies” of the industry identified above decide among themselves as appropriate the best means for choosing the most appropriate organisation and person from that organisation to represent the interests of that constituency in the most suitable manner. The proposed timetable for organising the selection of representatives is set out in section 5.

Those chosen to represent each constituency will need:

- ?? to be committed to attend all meetings of the advisory group, though alternates will be permitted;
- ?? to contribute to the debate on issues and if necessary provide papers and any other support if it is agreed by the group as appropriate;
- ?? to represent the views not of their own organisation, but those of all organisations in their constituency; and

³ For example Section 13 (3) of the 2002 Act gives the Commission powers to give directions to a particular licensee with respect to matters to be specified in its code of operations and to direct the licensee to review and revise its code of operations from time to time.

⁴ For the purpose of determining membership of the appropriate constituency the Commission proposes that natural gas undertakings who have applied for, reasonable expect to apply for or have been awarded a natural gas licence under the Gas (Interim) (Regulation) Act, 2002, a consent under the Gas Act, 1976 or an order under Section 2(1) of the Gas (Amendment) Act, 1987. With respect to producers, constituency membership shall be by reference to the holding of [or application for or reasonable expectation of applying for] a petroleum lease, as issued by the Minister for Communications, Marine and Natural Resources.

?? to report back to their constituency members on a regular basis.

It is expected that work streams or working groups will be set up from time to time to deal with specific issues and report back to the main advisory group.

Each member of the advisory group will be expected to meet its own costs.

The Commission will:

- ?? chair the GMAG and will have one additional representative;
- ?? act as administrator and circulate agendas, papers and other materials as appropriate;
- ?? ask its advisers to attend meetings of the group as appropriate;
- ?? provide meeting facilities as required.

The Commission's role is expected to be to act as a facilitator to the process of discussion and agreement. The Commission expects to bring forward proposals for appropriate changes that are designed to meet its duties and functions as well as the objectives it has set out. It will aim to take account of the opinions of the gas industry before making any final decisions.

5. EXPECTED TIMETABLE FOR REVIEW PROCESS

The Commission has already begun the review process and would like to set up the advisory group as soon as possible. The Commission appreciates that the following timetable is challenging but would appreciate the cooperation of the industry in pressing ahead with the process of choosing representatives to serve on the advisory group. The following are proposed as key dates covering the most immediate future:

1. Friday 2 August: Publish Consultation Document on Proposed Advisory Group;
2. Friday 16 August: Publish Consultation Document on Principles for Gas Market Arrangements;
3. Friday 23 August: Send responses to consultation document on the advisory group to the Commission;
4. Friday 6 September: Responses to the Commission on principles consultation document;

5. Friday 6 September: Industry to have chosen representatives to serve on advisory group and advise the Commission;
6. Week ending 13 September: Commission to publish a decision document on membership of the advisory group; and
7. Week ending 27 September: First meeting of advisory group.

It is not yet clear how long the process of review will take, but it is likely to be several months extending into 2003. The advisory group would meet on a regular basis with dates to be decided by the group from time to time.

6. COMMENTS

Comment is invited on:

- ?? The proposed terms of reference for the advisory group;
- ?? The proposed membership of the advisory group; and
- ?? The proposed timetable for setting up the advisory group.