

This document contains all of the responses to the consultation “Review of Natural Gas Market Arrangements: Proposed Advisory Group” (CER/02/101).

BGE

1. INTRODUCTION

The Commission for Energy Regulation has issued a consultation document “Review of Natural Gas Market Arrangements : Proposed Advisory Group” requesting comments by 23 August 2002.

Bord Gáis welcomes the opportunity to contribute to this consultation and to have its response made public on the Commission’s web-site.

The Commission identified a number of areas for further action from the responses to its “Consultation on Natural Gas Policy Framework – June 2002” part of which was the “Review and development of market arrangements including gas balancing, trading rules, access arrangements, Code(s) of Operation and metering”. The Commission proposes that a Gas Market Advisory Group ("advisory group") be established to assist the Commission with these and other planned actions.

We have presented within this document our response to the various questions that the Commission has posed, but in summary, we believe that:

- The current market arrangements are working well and facilitating competition in gas supply to over 80% of the market, by volume.
- There is a very significant workload to be concluded within a relatively short timescale required to deliver the arrangements and systems required to meet the planned full marketing opening in 2004/5.
- There is value in a group similar to the Electricity Market Review Group to debate and review proposals for 2004/5 brought forward by licence holders and holders of Section 2(1) Orders, including Bord Gáis, prior to formal consultation.
- The scope of the work of the advisory group should be focused and prioritised in order that any resulting directions from the Commission to licence holders can be given with sufficient lead time to ensure licence holders can build and deliver the systems and processes required to meet full market opening in 2004/5, and to avoid charges associated with re-work being incurred.
- The advisory group should complement the mandated work and scope of the Code Modification Forum, and work in concert with it.
- It is assumed that all parties are supportive of the continued development of the gas market in Ireland and that the Commission will wish to secure agreement regarding what is best for the industry as a whole, as opposed to the pursuit of individual agendas. An important objective for all stakeholders (and the overall arrangements) must be to ensure that gas remains competitive relative to substitute fuels.

2. COMMENTS ON THE COMMISSION'S PROPOSALS

2.1 The proposed terms of reference for the advisory group

Unlike the market opening in electricity, and the development of the electricity trading and settlement arrangements in 2000, the opening of the gas market in Ireland is not commencing from a "standing start".

It is important to recognise that the arrangements for competition in the Irish Gas Supply Market have been put in place by extensive consultation and agreement with the industry. These arrangements that represent a balance among competing interests are encompassed in the Transmission Code of Operations. The Code is working well to facilitate competition in gas supply to over 80% of the market by volume; with a relative large number of participant shippers, given the relatively small size of the Irish gas market. The arrangements also take cognisance of and "fit" with the purchasing of gas by shippers in the UK market.

Bord Gáis has always welcomed and taken into account the views of the other market participants and is continuing to do so, particularly through the Code Modification Forum. We also welcome the industry's views on arrangements for full market opening in 2005.

In relation to the Commission's proposals for the advisory group, Bord Gáis believes that

- **The advisory group should complement and work in concert with the Code Modification Forum**
- **the focus should be on reviewing requirements and arrangements for full market opening in 2004/5**
- **the terms of reference and scope of work should be prioritised and the timing of discussions should take into account the needs of implementing the development programme for 2004/5 systems and processes**

In terms of the scope/terms of reference for the advisory group, we would advocate the following:

(i) Scope/terms of reference of the advisory group should complement the Code of Operations and the Code Modification Forum

The Commission emphasises in its proposals that the advisory group has no powers as such but will exist to advise the Commission in a number of areas and the Commission retains the power to implement changes at all times.

The Commission also states that "*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.*"

Bord Gáis welcomes this clear statement concerning the governance of the Code of Operations. The Code of Operations (and the related agreements) are the contractual arrangements between Bord Gáis Transmission and its customers – the shippers - who wish to use capacity on the Bord Gáis system.

The current Code of Operations has enabled the successful introduction of “Third Party Access” (TPA). This has led to the introduction of a competitive gas market with eligible gas consumers being able to choose their gas supplier or to become a self-shipper.

There is a clear distinction between developments of the current contractual framework between Shippers and the Transporter through the Code Modification Process and the role of the advisory group in an advisory capacity under a Commission initiated review process of gas market arrangements. We strongly believe that the commercial contractual arrangements between Shippers and End Users, Shippers and the Transporter and Shippers and Producers must not be undermined.

For example, the terms of reference of the advisory group should not influence changes to the current Gas Industry Framework or contractual arrangements between the Shippers and the Transporter e.g. a modification proposal should not be raised arising from the work of the advisory group. (see section (ii) below).

<p>The scope and terms of reference of the advisory group should be framed to complement the work of the Modification Forum, and to avoid unnecessary duplication.</p>
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(ii) The advisory group scope/terms of reference should be focused on 2004/5

There are a number of processes for industry participants and other interested parties to put forward their views and to influence the development of the market arrangements. These include the Code of Operations Modification Forum - of which the Commission is soon to appoint the chair - the bi-annual industry forum held by the Commission and the Commission's formal consultation process.

Given the small scale of the gas market in Ireland, it is likely that the same individuals may sit on, and contribute to, a number of the existing and proposed groups. The significant cost and time commitment required by both the representatives and the parties they are representing is another reason why the advisory group should have a distinct role from the Code Modification Forum and the consideration of current market arrangements' extension to the newly eligible market.

However, in view of the significant work required in developing and delivering the arrangements and systems necessary to meet full market opening in 2004/5, we agree that there is significant value in establishing an industry group of interested parties, similar to the Electricity Market Review Group. Such a group would review proposals brought forward by licence holders and holders of Section 2(1) Orders, including Bord Gáis, prior to the formal consultation process initiated by the Commission through its website.

Ensuring that the focus and scope is clearly defined and delineated will also help to avoid "scope creep" and to mitigate the risk that the 2004/5 implementation process is not delayed through issues not relevant to that objective absorbing scarce time at the advisory group discussions.

Therefore we suggest the advisory group mandate should be amended to read: *"1. To assist the Commission for Energy Regulation review the proposals brought forward by licensed holders and holders of a Section 2(1) Order, including Bord Gáis, for the development of market arrangements for 2004/5."*

(iii) Advisory group discussions should be synchronised and prioritised to meet the requirements of the 2004/5 development programme.

The exercise of developing systems and processes for the new arrangements for full market opening in 2004/5 will require decisions to be taken in a timely manner.

It is important that the agenda and the timing of the advisory group discussions are synchronised with the needs of the development programme in order that systems and processes can be implemented and tested in time to meet full market opening, and the burden of additional costs from re-work or delays are avoided.

Given the very short timescales between now and market opening, we would be supportive of the Commission introducing initiatives which would accelerate the process of agreeing the new arrangements.

To this end, the advisory group should enhance the process of consultation by reviewing the 2004/5 proposals brought forward by licence and Section 2(1) Order holders. However, we would caution against purely adding any additional stages to the authorisation process that may delay implementation of the new arrangements.

Note : Protection of confidential information

The approach outlined above would also support the Commission's responsibility, in carrying out its duties, to maintain the confidentiality of information given to it on foot of a request made to licence holders under its legislative powers.

An advisory group has no such responsibility nor could it reasonably be expected to keep information confidential given the proposed representation of multi-company constituencies.

The terms of reference should make reference to the provision of commercially sensitive and confidential information, and ensure that the advisory group should not expect to receive this type of information.

2.2 The proposed membership of the advisory group

Bord Gáis notes that the Commission proposes

(i) a small 8 representative panel membership, with 4 representing shipper/suppliers.

(ii) that actual and potential licence holders can be represented on the panel and that the Commission determines membership of the appropriate constituency by reference to an application for, or reasonable expectation of being awarded, a natural gas licence.

(iii) parties are to decide among themselves the best means for choosing the most appropriate organisation & person from that organisation to represent the interests of that constituency in the most suitable manner.

This form of panel membership and representation could result in

(i) bias towards the shipper/supplier constituents (half the proposed panel are from the shipper/supplier constituency)

(ii) domination of the group by non-licence holders/potential new entrants

(iii) implied voting and position taking with regard to representation on the advisory group, which in our view, could be counter productive.

The proposed terms of reference (point 3) states that the advisory group is to “to represent to the Commission the views of all parties operating in the gas industry through appropriate representative channels”.

As currently formulated, this group does not include key participants in the gas industry, such as gas consumers.

Similarly in view of the experience and impact to systems we would anticipate that the Commission and the industry would see value in the various functions of Bord Gáis being represented; in particular transmission, distribution and franchise supply, and GPRO. This representation would be consistent with the Trading and Settlement Advisory Committee during the early development of the electricity market, and again on the subsequent Modification Panel.

We highlighted earlier the value of a group similar to the Electricity Market Review Group to review proposals in relation to meeting the requirements of full market opening in 2004/5. Alternatively the composition of an industry "think tank" of a purely advisory nature could be directly determined by the Commission to best represent industry experience and expertise, and in this way ensure the existence of a valuable and cohesive forum to assist the Commission. For example, in 1997 Ofgas decided it needed help with the wider gas regulatory issues outside of the formal Network Code processes and invited members from all parts of the gas chain to debate long-term issues constructively and outside of the direct day-to-day commercial interests of the invitees.

Proposed Advisory Group Representation

In view of the above points, and to ensure an appropriate balance and representation across the industry, we propose the following representatives be invited by the Commission to sit on its advisory group :

Gas producers - 1 representative

Gas storage operators - 1 representative

Gas shippers/suppliers - 1 representative

Potential new entrant - 1 representative

BGE Transmission - 1 representative
BGE Distribution - 1 representative
BGE Franchise Supply - 1 representative
GPRO - 1 representative
Gas consumer - 1 representative

Given the voluntarily nature of participation in the advisory group, the potential for significant financial and other commitments arising from the proposal that individual representatives would be required "if necessary, to provide any other support if it is agreed by the group as appropriate" should be a matter for agreement by the individual, not mandated by the group. It is suggested this phrase be amended to "and with their agreement to provide additional support as appropriate".

2.3 The proposed timetable for setting up the advisory group

We welcome the publication of the Commission's timetable for the setting up the advisory group.

It would be helpful to have some clarification regarding the points raised regarding the scope/terms of reference of the advisory group ahead of its establishment. In particular, clarification in regard to the group's role and remit in relation to the scope and terms of reference of the Code Modification Panel would be beneficial.

We would also welcome further discussions with the Commission regarding the synchronisation and prioritisation of the advisory group's agenda to ensure that the development and implementation of systems and processes required for full market opening in 2004/5 are delivered on time.

We recognise that the Commission may want time to re-consider the membership of the advisory group, and how they are chosen to ensure balance and fair representation of the gas market players in light of our observations.

Enterprise Energy Ireland

Dear Catherine,

Review of Natural Gas Market Arrangements
Proposed Gas Market Advisory Group

I refer to the CER Consultation Document CER/02/101 dated 2nd August 2002, which requested comments to be submitted to the CER prior to Friday 23 August 2002.

Enterprise Energy Ireland (EEI) is pleased to take this opportunity to make the following submission to the CER on this issue.

EEI welcomes this review of the Natural Gas Market Arrangements. EEI submitted an eleven page document to the CER on 28th June this year addressing in summary many of the issues which the CER has noted as main areas for this review

Proposed Terms of Reference

One additional area where it may be useful to obtain industry views relates to the basis upon which the pricing for transportation and other services offered by the Transporter or other parties should be set. Whilst it is clearly the role of the CER to establish such tariff regime, input from the Market Advisory Group on experiences elsewhere may prove valuable to the CER.

We also believe that it is important that in examining the services and rules of market arrangements, due regard will have to be given to the likely costs and benefits to the market participants and final customers of gas of proposed changes to the existing arrangements and whether such changes would help the CER meet its other objectives e.g. promotion of competition.

Membership of the Advisory Group

EEI has been of the view for some time, that the current Modification Panel mechanism for the current Code of Operations is flawed in that whilst a large number of people attend these meetings, effective work and participation in the process is limited to 5-6 companies. At times there have been over 30 persons present, with some companies represented by 4-6 individuals. This is clearly inefficient and slows decision-making.

However in structuring an advisory group the following issues need to be taken into account:-

The investment levels of the various participants in the Irish gas market
The experience of potential members of the GMAG both of the Irish and other gas markets and their commitment to devote the required time/resources to contribute effectively to the GMAG.

The degree of commitment, in terms of analysis and ideas, that has been demonstrated in the past year to the Modification Panel of the Code of Operations, by potential GMAG members.

We note that the CER has proposed that there should be one representative of gas producers on the GMAG. EEI believes that this creates a major problem for the following reasons:-

The Irish gas market is fundamentally different to the electricity market. In electricity, a series of power producing plants may have common objectives in setting the market rules as their position is largely similar. Even amongst the gas producers from the same field, each company has a different position in terms of its presence in the market; e.g. scale of investment, whether integrated downstream, whether a shipper ex UK, an equity holder in power production,

equity investment in storage etc. It is unrealistic to expect one company to be able to represent all others in the GMAG.

With particular respect to the Corrib Owners, given the background of the discussions that took place with the European Commission regarding common sales, EEI cannot share with any of the other Corrib Owners information regarding its gas marketing activities. Without such background, it would be virtually impossible for one company to fully represent the issues of other gas producers in resolving downstream issues in the Code of Operations.

There is an inherent conflict between the gas producers from different gas fields in terms of their preference for balancing arrangements and flexibility within the Code. Each gas field has different production profile characteristics, scale of production, exposure to gas production shortfalls and ability to modulate gas production. It would be unrealistic to expect a single producer to represent fairly the views of all producers, when it would be to the detriment of his employer.

On the basis of the above, we believe there should be at least two and possibly three gas producer representatives on the GMAG.

EEI's role in the GMAG

EEI would welcome the opportunity to be a member of the GMAG and we believe that we can make a valuable contribution to the work of this group for the following reasons:-

EEI has been one of the most active participants in the Modification Forum of the Code of Operations, devoting considerable effort to highlighting and trying to clarify potential solutions to issues raised. It would agree that a considerable portion of a locally-based employee's time would be dedicated to the GMAG.

EEI is a wholly-owned subsidiary of Shell and would therefore have access to a considerable amount of Shell Group experience on gas markets, which it would be prepared to draw on in its work in the GMAG.

EEI is Operator of the Corrib gas field the biggest gas field development in Ireland since Kinsale. As Operator of Corrib, EEI is responsible for putting in place a range of agreements with a number of counterparties to enable gas to be nominated and flowed all the way from the wellhead, through Corrib onshore terminal and on to the main onshore gas transportation network. As such, EEI has a virtually unique overall viewpoint on the issues that may arise for a gas producer with the Gas Market Arrangements.

Upon first gas production from the Corrib field, EEI will be the largest gas producing company in Ireland.

EEI is the holder of the largest number of offshore exploration acreage in Ireland and is the most active company in drilling such acreage. It therefore has an intense interest in ensuring that future gas market arrangements enable gas

from new production projects to readily reach customers. This will increase competition in the gas market and increase security of supply, two of the CER's objectives.

Whilst EEI has a gas producing role in Ireland, other parts of the Shell Group of Companies have been and continue to be a supplier of gas ex UK to Irish customers. EEI's participation in the GMAG will be therefore be more rounded than a company which is just a shipper or just a gas producer.

In summary, EEI believes that there should be increased representation for gas producers on the GMAG and that EEI should be one of the representatives on this Group.

EEI would be pleased to discuss any points raised in this note with you further.

Yours sincerely,

Dermot O'Kane
Commercial Manager

ESB

CER Consultation Gas Market Advisory Group

Dear Catherine,

ESB welcomes CER's proposals to establish a Gas Market Advisory Group.

ESB agrees with the proposed membership and timetable for setting up the advisory group. Preliminary discussions with other suppliers / shippers suggest that agreement can be reached within this constituency as to representation on the advisory group.

We agree with the terms of reference proposed for the advisory group. However, it is our view that the following two matters are also included:-

Gas consumption by electricity generation typically accounts for well over half the natural gas consumption in Ireland currently. A similar proportion of electricity generation is gas fired. Consequently, the relationships and interdependence between the gas and electricity markets deserve particular attention. This is particularly important where gas fired generating plant is for use other than for base loading. It is our view that any review of the current

gas market arrangements is undertaken with a particular term of reference to consider this aspect.

Irish Transmission Tariffs are extremely high by international standards. In addition, transmission tariff structures have a direct impact on gas market prices in Ireland. The current association of the highest tariffs with the UK-Ireland interconnector, ensures that Ireland is afflicted with the highest possible gas prices. It is our view that gas market arrangements cannot be considered without consideration to tariff structures. Consequently, it is our view that these structures should be considered by the Gas Market Advisory Group.

Yours Sincerely,

**Brendan Barry,
Manager, Gas Markets Regulation,
ESB Power Generation.**

Flogas

Review of Natural Gas Market Arrangements: Proposed Advisory Group

Dear Ms. O'Hara,

We have reviewed the CER's Consultation Document on Review of Natural Gas Market Arrangements: Proposed Advisory Group. Our response to each of the consultation questions is detailed below.

The Proposed Terms of Reference for the advisory group?

The terms of reference detailed in the Consultation Paper appear acceptable.

The Proposed Membership of the advisory group?

The proposed membership detailed in the Consultation Paper appears acceptable. However, care needs to be taken that the group should have representation for potential new entrants and not just the existing market players.

The proposed timetable for setting up the advisory group?

The proposed timetable detailed in the Consultation Paper appears acceptable.

There appears to be a practical difficulty in respect of the industry agreeing on the representation. We suggest that the CER request applications or at least indicate which companies are likely to be interested in being represented on the shipper/supplier group to facilitate agreement between the parties. This agreement may be difficult to achieve and may well require the CER taking the final decision on membership. Obviously, a decision based on existing gas volumes would give total representation to current shippers, so more detailed guidance on the membership may be necessary from the CER.

Yours Sincerely

Mark Gannon
Company Secretary
Flogas Ireland Ltd

IBEC

Paul,

IBEC is very surprised and concerned that there is no consumer interest on the proposed Advisory Group on Natural Gas Market Arrangements.

I will revert with a fuller comment upon my return from annual leave.

I anticipate that the CER will have taken this concern on-board and rectified such an obvious omission in the interim.

Yours sincerely,

Tanya Harrington

Marathon

**Re: Consultation on Review of Natural Gas Market Arrangements:
Proposed Advisory Group Document dated August 2 2002.**

Dear Ms O'Hara,

Marathon has reviewed the subject Consultation Document and we offer the following comments.

We agree with the proposed terms of reference for the advisory group.

We also agree that the membership of the advisory group should be limited to that of the Commission and its advisors together with a small group of representatives drawn from the main constituent parts of the gas industry. However, we believe that the composition of the group should more closely reflect both the scale and risk of the investments currently being undertaken by market participants. In this regard, we believe that the number of representatives from the gas producer's constituency should be increased. Alternatively, given the likelihood that the gas producers will also become shippers of gas, the representative of a gas producer should not be excluded from representing the constituency of the gas suppliers and shippers.

We also agree with the proposed timetable for setting up the advisory group.

On behalf of Marathon, I take this opportunity to thank the Commission for enabling us to partake in the current review process and I can assure you of our continued cooperation in the development of the Natural Gas Policy Framework.

Yours sincerely,



Kieron Carroll
Business Development Manager

Premier Periclase

Dear Ms O'Hara,

In relation to the above, I want to voice a strong belief that the advisory group should include a representative of the end-users/customers that are, in the end, the people who drive the gas market, and pay all the bills.

Perhaps IBEC should be invited to arrange same.

Gerry Teeling
Plant Manager

Ramco

1. Proposed Terms of Reference

We are in agreement with the terms of reference as proposed.

2. Proposed Membership of the Advisory Group

We are in broad agreement with the membership as proposed. However, we believe that at this stage of the development of the Irish gas market it would be appropriate for there to be more than one representative of the gas producers. We believe that that this would make for a much more balanced Advisory Group and would also reflect the importance of developing additional sources of indigenous gas.

It is also worthwhile noting that one or more of the gas producers may also be required by market conditions to function also as shippers.

3. Proposed Timetable

We agree that the timetable is challenging but are firmly of the view that this is warranted. Accordingly Ramco supports the Commission's approach.

We would note however that as far as we are aware the Commission has not as yet published the consultation document in respect of the Principles for Gas Market Arrangements. However, we acknowledge that it will not always be possible to meet the challenges of the timetable. This is not an argument for adopting a more relaxed timetable.

Statoil

Catherine,

Statoil are reasonably happy with the proposals set out in the CER consultation document. However there are a few comments we would wish to make.

The objectives that have been set out in para 3.1 include ensuring that any market arrangements for the electricity industry and the gas industry are consistent. We do subscribe to this sentiment however, there may be occasions where this is not possible and we would therefore wish to in some way limit this assurance such that neither industry should be forced to accept a sub-optimum solution simply for the sake of consistency. We believe real, measurable benefits should result from consistency.

We are pleased that the CER recognises the level of commitment required by participating in the Advisory Group. However the limited number of participants could restrict individual companies from contributing to the formulation of the detailed options. The election of participants could, however well intentioned, isolate parties who have made significant investments and who have contributions to add to the debate.

We are concerned that we may not have a voice in the discussions and yet are a participant in all parts of the supply chain, from producer through to generator.

We propose that an additional Gas Producer representative be added to the membership and an additional Supplier and Shipper representative.

regards
david

Viridian

Comments by Viridian on CER document entitled “Review of Natural Gas Market Arrangements: Proposed Advisory Group”

(A) Proposed terms of reference for the advisory group

In Section 3.2 the “Proposed terms of Reference” of the GMAG are suggested. Whereas all the terms of reference suggested are very relevant they should be extended as much as possible so as to allow the group to discuss ways of helping the Commission achieve the “Duties and Functions of the Commission” as outlined in Section 3.1 of the paper e.g. ensuring that the appropriate mechanisms are in place to facilitate “the entry of players into the gas market” and that “access to the gas network” is “on a transparent and non-discriminatory basis”. It is thought desirable that the GMAG, as a representative of the Irish gas industry as a whole, should be in a position to work together with the Commission in order to achieve a more active, open, equitable, fair, transparent, liquid and competitive gas market for Ireland and to openly discuss all issues pertaining to these goals and ideals in order to ensure they are achieved.

(B) Proposed membership of the advisory group.

Viridian are in broad agreement with the eight member panel suggested by the CER. In relation to the 4 representatives of the “Gas Suppliers and Shippers” we suggest that IFI, ESB, BDCP and Viridian represent this group as active shippers in the Irish Gas market. On this gas panel Viridian propose to act as the representative of gas-fired electricity generators in the eligible sector.

In relation to gas producers it could be argued that the issues facing a Corrib producer are in some respects different from those facing an Inch producer and that perhaps a producer from each of these Entry Points may be desirable on the GMAG – however Marathon, as the only entity that could realistically represent “Gas storage operators” could also be viewed as representing Corrib and/or Inch producers and hence one representative for “Gas Producers” will most likely suffice.

(C) Proposed timetable for setting up advisory group

Viridian would view the timetable suggested by the CER as ambitious but would support the timetable suggested as the quicker the GMAG are set up and active the quicker some favourable changes to the gas market in Ireland occur.

Wellman International

I am surprised there is no one representing consumer/customer interests on the proposed advisory body on marketing arrangements.

Paul Walsh
Wellman International Ltd.