CONSULTATION ON MARKET ARRANGEMENT PRINCIPLES

CER/02/117

SUBMISSION

TO THE

COMMISSION FOR ENERGY REGULATION

26 September 2002

BORD GÁIS ENERGY SUPPLY'S COMMENTS ON THE CONSULTATION DOCUMENT ON MARKET ARRANGEMENT PRINCIPLES CER/02/117

Bord Gáis Energy Supply welcomes the opportunity provided by the Commission to respond on the above Consultation paper on Market Arrangement Principles.
For the purpose of conformity, the numbering used in our response below tracks that used by the Commission's submission.
The submission addresses the comments raised by the Commission's report in their headed sections.

3. Gas Capacity: Investment and Trading

Question: Is the current point-to-point system the most suitable option for Ireland or whether another system, such as a pure entry/exit system would be more appropriate option?

Bord Gáis Energy Supply notes and understands the merits of both the point to point system and the entry/exit mechanism as outlined in the Commission's consultation document.

Bord Gáis Energy Supply agrees with the consultation paper that the entry/exit basis as used in the UK does facilitate the wholesale marketing of gas and could assist shippers/suppliers in the event they wished to develop a balancing/spot market in Ireland.

However we could only support a move from point to point to entry/exit mechanism, with the clear understanding that in doing so the following outcomes take place.

- It is imperative that the Transporter is financially neutral from any move to entry/exit and that transportation charges do not adversely affect prices to end-users.
- Shippers booking capacity at a specific Entry point will need to provide proof of gas supplies at that entry point. This is to avoid capacity hoarding.
- This rule is also essential at exit points where proof of usage should be available. It is also essential that suppliers at an Exit point are fully capable of fulfilling their supply obligations by holding adequate Entry capacity.
- There is also a need for some simple arrangement to ensure that supply to smaller end users is not compromised by under booking of Entry or Exit capacity

If the Entry/Exit method was adopted then trading of secondary capacity at both Entry and Exit capacity could take place.

Question: What is the role of the Transporter in, and method of, facilitating capacity rights trading?

Bord Gáis Energy Supply see it as essential that the Transporter is not a counter-party to the capacity transfer but nevertheless is kept fully informed of the operational aspects of the capacity transfers without any commercial detail.
The Transporter at present facilitates capacity transfers on their GTMS application. This seems to provide adequate levels of information, and data as required by the Transporter. All of this however is without any reference to commercial data.
The suggested electronic bulletin board should be operated externally by an independent agent..

Question: What is the duration for which capacity rights may be traded?

Energy Supply agrees with the proposal by the CER to have the minimum capacity trading interval as the balancing period and the maximum capacity trading interval to be the remaining duration over which the transferor holds the capacity right.

4. Transportation Services

Question: The desirability of the Transporter offering short-term firm service?

Currently the mechanism for the transportation costs as published by the Commission is based on their full recovery by booking of capacity by shippers for periods of at least one year. We do not support any move to a short term/long term mix of capacity service without addressing the issue of over-capacity being adressed.

We strongly believe that the Transporter cannot be permitted to sell either short-term firm capacity or interruptible capacity when excess capacity exists in the system.

Were the selling of short-term capacity be carried out by the Transporter in a market with over-capacity, we would expect this to adversely affect the development of a secondary capacity market. It could also lead to significant over/under recovery of capacity charges, and penalise shippers compliant with long term bookings.
The use of effective short-term capacity can only be made when a change to the method required to book firm annual capacity is altered and the level of excess capacity addressed
If the capacity booking methodology were changed (and the above condition met) to make short term capacity available then an opportunity could exist to further capacity trading.
Any changes would also need to address the requirement placed on shippers to nominate for firm capacity based on historic winter peaks when the market opens fully in 2005.

We are in agreement with the necessity for the Transporter to provide back up capacity (but at a price) to Shippers/Producers should this be required. This is essential to avoid unnecessary disruptions to the system should an Entry point fail. However this should be on a controlled basis and subject to market agreed situations.

Question: The duration of short-term firm service and pricing arrangements?

The Commission has indicated that it seeks to review the method of Transporter capacity charge recovery after this interim period. If this review can provide a framework which removes the need for ANY supplier/shipper to hold all its capacity requirements as firm capacity then an opportunity could exist to introduce tiered capacity charges that reflect procurement risks for smaller periods.
However the proposed system will also need to recognise that disproportionate volumes of all gas used is from very few sites involving Electricity Generation. It is essential that short-term capacity plans do not benefit the largest users in Ireland to the detriment of smaller users.

Question: At what level of capacity utilisation the Transporter should offer interruptible services and pricing arrangements for this service?

The Transporter should only sell interruptible services in a period of physical capacity shortage in the market. Thus utilisation should be near the 100% level before the Transporter sells Short-term firm or interruptible capacity. This premis is clearly stated in the Commissions paper. An indicatin of the costs of this service, once these conditions are fulfilled, would be welcomed by both shippers and customers.

Question: The desirability of the Transporter offering an authorised overrun service?

This could have serious implications for any possible development of the secondary capacity market. It would also create an environment where end users could under book their firm requirements and seek authorised overruns on the day additional capacity is required. The price in such cases will be all important and should be set to facilitate occasional unexpected events rather than become the normal solution.
The transporter should only sell firm capacity, with the secondary capacity market supplying any shortfall requirements users may have on a day.

Question: The duration of an authorised overrun service and pricing arrangements?

The Commission has stated that it 'envisages that the charge for authorised overruns will be set at a rate higher than the daily equivalent charge for firm and short term firm service'. Shippers will naturally be concerned that any such charging structure will still not adversely affect the development of a secondary market.
It is also important that transportation cost recovery is not jeopardised through the introduction of any overruns. To this effect we will be pleased to comment on proposed initiatives when the next transportation tariff review occurs.

Question: The desirability of allowing overrun trading?

While the introduction of after the day trading in capacity overruns could provide opportunities for more market trading, it could also adversly affect the development of the secondary capacity market.
There is an area of risk (identified in the Commission's paper) where the network has operational problems. How this would be controlled and shippers penalised we believe will require more than 'a signal to be extra vigilant'

5. Nominations and Balancing

Question: The scope for increasing the flexibility of the nomination process, the potential costs involved and the likely interaction with upstream nomination procedure?

The current nomination process works well. It is in line with the present UK nomination regime. Any changes in either the UK or Ireland will have a substantial cost to the Irish gas industry. It will also require legal re-drafting of all agreements at Moffat not to mention agreements with Northern Ireland and the Isle of Man. There is also the systems (IT and metering) adjustment required by shippers, end-users, producers and Transporter.

Question: The adoption of an entry/exit balancing regime?

We agree this option should be reviewed and considered and in presenting any proposals recommend an overall industry cost/benefit analysis be performed to ensure the feasibility of such a change.

Question: The setting of imbalance tolerances by the Transporter?

This seems quite a complicated mechanism for dealing with gas flows. Shippers are dependent on the actions of both the Transporter and producers at Entry points to flow the correct gas quantities and the actions of end users in the offtake of gas from the system. The use of daily tolerance provides a mechanism for incentivising the actions at both entry and exit point. The introduction of a "Banking" system for tolerance quantity could provide a shipper, which is an end user, the ability to "game" the system.
The balancing charge for gas within a tolerance is not overly penal and as such what is being suggested appears to provide the very large end users with a "gaming" potential with insignificant benefit to smaller end users.
If the Commission can allay these fears and demonstrate that all shippers could be better off with this approach then Bord Gáis Energy Supply would welcome this new initiative to reduce energy costs to customers.

Question: The role of the Transporter in, and method of, facilitating imbalance trading?

At present the GTMS has a facility to manage After the Day Trades and operates effectively. This system should continue and be developed if required. It also provides the necessary information to the Transporter for charging purposes.
Bord Gáis Energy Supply again restate that the Transporter handles no commercial data on trades.

Question: Allowing ex-post trading of imbalances?

The trading of imbalances is primarily an administration job, and whilst it does not affect the physical gas flows on day D, it may only cause to encourage some shippers to continuously "game" the system to their advantage and to the detriment of other users. It is essential that there is a limit to ex-post trading of imbalance outside the tolerance or poor balancing behaviour could materialise. Some degree of ex-post trading should be permitted this should hopefully be the exception rather than the rule.

Question: Imbalance charging?

It is essential that the Imbalance price is an incentive to balance and not a tool for "gaming". The adjustment in the imbalance gas prices should be implemented and reviewed after a reasonable period. Balancing is an essential requirement in a liberalised gas market and the UK undertook a full review of balancing charges recently with the outcome of this review being to increase the balancing gas charge.

Question: An arrangement whereby shippers in Ireland provide balancing gas under a bid-based mechanism, when this yields a better price than the OCM in Britain?

This proposal would imply that the Transporter would as a backstop procure gas and hence act as a shipper. Is this really envisaged?
The proposal will depend on active shippers to provide the bids, failing which the Transporter will be pbliged to have some mechanism in place to procure OCM gas.
This would probably need to be done in open competition and presumably lead to the award of service contract to obtain the 'imbalance gas'.

Question: Whether the Transporter should be given a financial incentive to minimise balancing costs and if so, the form such an incentive may take?

The Transporter has a responsibility to balance the system on a day. A financial incentive on the Transporter would benefit the Transporter, Shippers and the gas industry as a whole.
An annual target balancing cost, which varies with exogenous factors (e.g. gas prices) would be realistic once the system has operated for a period of time.
Incentives may take the form of a "Dead Band" allowance where if within +/- x% of budget the cost/benefit is shared 50:50 between shippers and Transporter.

Question: Arrangements for settling residual imbalances?

Bord Gáis Energy Supply agrees that residual imbalances should be settled between the Transporter and the Shipper.

Question: Charges for divergences from nominations and nomination divergence tolerance levels?

Basically the Commission is requesting the Gas industry Code of Operations to be implemented. In this case, it will have industry-set fixed charges for exceeding tolerance. Bord Gáis Energy Supply does not however see a need for this to be effected. The daily utilisation of line-pack is designed to facilitate these hourly divergences. In severe cases or due to technical difficulties the Transporter will intervene and implement operational controls.

6. Shrinkage Gas and Line – pack

Question: Arrangements for (i) determining the amount of shrinkage on the transportation system, (ii) procuring shrinkage gas and (iii) incentivising the Transporter to minimise the amount of shrinkage on the system?

(i) The Transporter is in the best position to accurately determine the level of shrinkage during the gas day, and therefore should be primarily responsible for replacing shrinkage gas.
(ii) At present, a competitive tender document is sent out for each gas year. All shrinkage prices are market-related and clearly transparent.
If the proposal indicates that daily figures be published letting all shippers see other shippers daily procured gas volumes, then as this information is commercially sensitive, we could not support such a move.

(iii) It is our view that a forecast of shrinkage in the transmission system, which is subject to change as approved by the Commission, only adds additional complications to a nomination procedure that already works. The movement of responsibility for shrinkage may not provide shippers with any saving and may adversely affect smaller shippers.

Question: Allocating all line-pack to the Transporter initially?

Line pack should not be identified as a storage facility. Line pack is an essential tool in managing system integrity in the interest of all users.
Shipper "line-pack" accounts would add additional contractual and administrative complexity to the day to day shipping and operations procedure. This could be seen as a barrier to entry for smaller shippers and would in our view not promote competition.