

Elaine Wallace,
Commission for Energy Regulation,
Plaza House,
Belgard Road,
Tallaght,
Dublin 24.

27th September 2002.

Dear Elaine,

Ref: Consultation Document on Market Arrangement Principles
CER Document CER/02/117 – 28 August 2002

I refer to the CER's request for comments on the above-mentioned document and hereby enclose those of Enterprise Energy Ireland Ltd.

Should you have any queries on our submission, please not hesitate to contact me.

Yours sincerely,

Dermot O'Kane
Commercial Manager
Enterprise Energy Ireland Ltd.

**Enterprise Energy Ireland Ltd submission to the Commission for Energy
Regulation on the Gas Market Principles Consultation Document
dated 28 August 2002.**

Part 3 Gas Capacity and Trading

Contract/Common Carriage

The CER has described that capacity can be dealt within either a common carriage or contract carriage regime. EEI would agree that in Ireland's case it would, on the whole, be more appropriate to operate as a common carriage regime. However there are a limited number of cases, where it may be necessary to operate a contract carriage regime.

One such example would be a pipeline linking indigenous gas reserves to the main gas transmission network. The owner/operator of this pipeline would be taking the commercial risk of transporting sufficient gas through this pipeline to remunerate the investment involved. This is a typical contract carriage arrangement.

Once the bulk of the flows justifying this line have been transported, it is possible that the pipeline or a portion of the pipeline's capacity could migrate from contract carriage to common carriage. However subsequent capacity enhancements for such pipeline may have to be treated as contract carriage reflecting the balance between investment and capacity commitment.

The result would be a pipeline operating as contract carriage or a hybrid of contract and common carriage, within a system dominated by common carriage arrangements.

Point to Point or Entry/Exit System

A point to point system can be justified when there is a simple, probably linear pipeline system, with a very limited number of suppliers and customers/offtake points.

However the onshore grid will shortly become a ring-main system, with multiple entry points. The number of eligible offtake points has also risen significantly with currently over 100 exit points. These will increase as the consumption threshold for supply eligibility is reduced.

As the complexity of entry and exit points increases, this tends to favour incumbent suppliers who have the systems/knowledge in place to deal with an increasingly complex series of transportation agreements. Facilitation of entry of new gas suppliers is one of the CER's objectives. It could be argued that a point to point capacity system is a barrier to entry, inhibiting new supply entrants as it raises the cost of market entry due to its complexity. An entry/exit system is a more simple system for new entrants.

New entrants will also wish to ensure that their gas and capacity imbalances are minimised to reduce cost exposure. Point to point capacity regimes inhibit the trading of gas and capacity, as there is a lower possibility for two counterparties to have a

matching buy/sell requirement on a specific point to point transaction. An entry/exit system with more generic balancing requirements would have more opportunities for matching imbalance trades.

An entry/exit regime will also tend to present larger scale trading/optimisation opportunities, than a point to point system. This is important for the encouragement of indigenous gas production, where daily gas imbalances could be large, and the cost of dealing with such imbalances in a point to point regime, which could require a large number of transactions, would be prohibitive.

Capacity Rights Trading – Role of Transporter

EI has argued for some time that the Transporter should facilitate secondary trading of capacity by notifying Shippers of capacity utilisation rights. It therefore welcomes the CER's comments in this regard.

However we also agree with the CER, that the Transporter should not act as counterparty to such transactions. As the Transporter would (acting as an RPO) be obliged to be informed of all capacity rights traded between the shippers, there could be a perception that the Transporter could make use of information, not otherwise in the public domain, for commercial advantage to the disadvantage of individual shippers. This could impact on the willingness of shippers to share commercially sensitive information with the Transporter, to the detriment of the overall economic management of the system. To avoid this risk, EI agrees with the CER that the Transporter should not be permitted to be a counterparty to secondary capacity trading.

Capacity Right Trading - Duration

EI agrees with the CER proposal that secondary capacity trading should be permitted for as wide a period as possible and that the CER's minima and maxima are a practical approach.

Part 4 Transportation Services

Short-term firm service

- The present Code of Operations was largely developed at the time when ESB and BGE Energy Supply were the dominant users of the gas transportation system. Both these companies had significant in-house flexibility (ESB through dual-firing of generation plant and BGE Energy Supply through its economies of scale on transportation contracts) which meant that it was not necessary to provide a short-term transportation service.
- As the number of eligible gas customers has increased, transportation services should be available to customers which have more seasonal energy requirements. This facility is currently available to oil consumers through storage, but not directly to gas consumers. In many cases, this would encourage customers to convert to gas or switch demand out of peak seasons into off-peak capacity periods and therefore improve the overall efficiency of the transmission system.

- EEI would support the CER's proposal that short term firm capacity should be made available.

Duration of short-term firm service and pricing arrangements

- In Continental Europe it is conventional for Transporters to provide firm capacity for durations of 12 months, 1 month and 1 day or any multiple of those periods. (c.f. GasTransport Services – formerly Gasunie – Transmission Service Agreement for 2003).
- There would appear to be no reason why such service cannot be offered in the Irish market, especially given that customers will have scheduled maintenance periods, when they may want to contract for firm capacity from another entry point for a period less than one month. The CER could consider that the Transporter should be able to offer firm capacity on a daily basis or at most a weekly basis.
- EEI accepts that short-term capacity could be more expensive than longer term capacity, reflecting peak demand constraints on firm capacity. Short-term firm capacity during non-peak periods should be priced lower than short-term firm capacity during peak periods to provide appropriate economic signals.

Interruptible Capacity Services and Pricing of Such Services

It is not normal to stipulate a level of capacity utilisation before interruptible services are made available. Conventionally, short notice daily capacity is made available only on an interruptible basis, i.e. after it is clear that all firm capacity nominations have been made and Transporter feels comfortable to offer an interruptible service.

The key requirement for interruptible capacity is that capacity is required at short notice to meet a producer's or customer's operational problem. It is therefore the timing of when this capacity is requested, rather than whether it is interruptible or not.

Customers aware in advance that they have a requirement for capacity would book such capacity, on a firm basis, for a daily or weekly duration. Customers who need capacity at short notice would not be able to meet "normal" booking requirements, but obtain such capacity on an interruptible basis.

The pricing of such interruptible capacity should reflect seasonal capacity pressures and set to balance the risk of not obtaining such capacity, with the operational costs of booking capacity at short notice. There are a number of pricing models used by US/Canadian pipeline systems, where short term interruptible capacity is available at multiples of 100%-500% of the daily equivalent of long term capacity costs.

Overrun Service – Duration and Pricing

The Transporter should be enabled to permit customers to overrun capacity when there are no detrimental impacts on the system. EEI agrees that authorised overruns should be priced at a discount to unauthorised overruns. In addition to any pricing

indigenous gas developments is the lack of a balancing market to “smooth out” some of the variations that will occur with gas production.

Setting of Imbalance Levels by Transporter

The Transporter has already undertaken some work on calculating the system flexibility, as part of the Gas Forum work on Code Mod 4. It is clear that the completion of the ringmain and the second interconnector will provide a significant enhancement to the security of the system. Under these circumstances, the Transporter should be required to demonstrate what level of imbalances causes real system security issues to arise.

The CER will then need to take a view as to what level of system buffer between system security and permitted imbalances should be set to avoid unnecessary constraints on shippers.

Unnecessary requirements for shippers to balance will increase costs to the consumer and should be avoided.

Role of Transporter in Facilitating Imbalance Trading

The Transporter should, as with secondary capacity trading, enable exchange of information between shippers to facilitate imbalance trading. This enables “balancing slack” in the system to be utilised efficiently and avoids individual shippers taking action to balance unnecessarily.

Imbalances could be traded out by bi-lateral deals, with facility for shippers to offer to buy/sell to the system in the event the Transporter is forced to trade to maintain system security.

Ex-post Trading Out of Imbalances

EI would concur with the CER that since it does not impact on physical gas flows, there is no reason why trading out of gas imbalances after balancing period should not be permitted, provided that the imbalance is within permitted levels and has not caused the system distress.

Imbalance Charging

There will be considerable changes in the Irish gas market over the next few years with the likely development of a balancing market, gas storage facilities, the introduction of new entry points and new gas shippers. This should enable sufficient buyers and sellers to be available to provide a series of bids to supply or take gas from the system. This price should be used to cash out imbalances, which have caused the system to be imbalanced.

Where the Transporter has not been forced to take action, it would make sense for any unsettled imbalances to be cashed out between the relevant shipper and the Transporter. If the imbalance has not caused the Transporter to take action, the

imbalance charge should be set to incentive shippers to remain in balance, without being unduly penal.

Financial Incentive to Transporter to Minimise Balancing Costs

Whilst in theory it is good practice to incentivise the Transporter to minimise costs, it is important that the actions undertaken as a result of this mechanism do not just transpose costs onto another party. In this regard, it has been noted that the degree of incentivisation provided to Lattice and the National Grid in the UK has on occasions obliged these companies to act in a manner which was not cost-effective for the industry as a whole.

Incentivisation mechanisms therefore need to be carefully constructed and level of incentive established proportional to the degree of savings feasible, given the prevailing circumstances.

Residual Cost Imbalances

The key issue is to ensure that smearing charges which will result from dealing with residual cost imbalances are seen to be identified and dealt with quickly. Smearing charges, which are applied years after the relevant periods, cause uncertainty in pricing products to customers.

Large smearing charges are an indication that current imbalance mechanisms, data reporting and metering facilities are not adequate. The sooner these issues are identified; the lower will be the exposure to such charges.

Regular interim reporting is essential to identify cost imbalance issues quickly.

Nomination Divergence Tolerances

As far as EEI is aware, this has not been a major issue, as systems such as the Moffat Agency arrangements are able to identify quickly whether there are mismatches between shippers' nominations. Scheduling errors are therefore minimised.

However EEI agrees with the CER, that where such errors do occur and costs are imposed on the system as a result, the party in error should endure a scheduling charge.

Part 6 Shrinkage Gas

Shrinkage Gas

The CER has proposed that Shippers be responsible for providing shrinkage gas, in a manner similar to transmission losses in the electricity industry. This is in line with international practice and EEI agrees with the CER.

EEI also agrees that the Transporter should alert shippers to shrinkage gas on a daily basis. However the Transporter should avoid re-setting the shrinkage gas factors too frequently as this will cause confusion in terms of nominations required.

In setting targets to the Transporter for minimisation of shrinkage gas, the CER needs to take into account the impact on other counterparties of providing such incentives to the Transporter. For example, an incentivisation mechanism on shrinkage gas could result in the Transporter obliging other parties (e.g. gas producers) to provide gas pressure into the system, to avoid the Transporter utilising own compression facilities.

The CER should also consider how to deal with commercial gas losses; i.e. theft from the system. This would arise from an inability or inadequacy of metering facilities/data systems to track the relevant gas movements to a customer. Incentivisation in terms of investment in appropriate facilities/technology may be relevant.

Line-Pack

EEI agrees with the CER that all line-pack should be allocated to the Transporter initially.

However this would be subject to the Transporter demonstrating after a period of operating the ringmain and the increased interconnector capacity, the level of line-pack required to maintain system security.

The remaining line-pack would then be available to shippers through increased imbalance tolerances.