FLOGAS RESPONSE TO CER CONSULTATION ON MARKET ARRANGEMENT PRINCIPLES

27th September 2002

General Comment

We welcome your statement that an objective of this Consultation on Market Arrangements is *to promote competition in gas supply by facilitating the entry of players into the gas market*. As stated in our submission on the Natural Gas Policy Framework, we believe it imperative that measures are taken to assist new players in entering the natural gas supply market.

Whether the current point – to – point system is the most suitable option for Ireland or whether another system, such as a pure entry/exit system would be a more appropriate option?

We favour the flexibility that an entry/exit system provides, rather than balancing on a point-to-point basis. We believe that there is enough flexibility in the system to support entry/exit balancing. If it is not possible to move to full entry/exit balancing immediately, a transition phase should be introduced where entry/exit balancing is arranged on a zoned basis.

We agree that the point-to-point system limits the degree of capacity trading that can take place and therefore increases the risk for a new entrant in holding capacity.

The role of the Transporter in, and methods of, facilitating capacity rights trading?

We consider that shippers should be allowed to arrange trades bilaterally and that the Transporter is not the counter-party to capacity rights trades.

We support the recommendation that the Transporter facilitates secondary bi-lateral trading of capacity using an electronic system open to all shippers and that only the parties to the capacity trade need to be aware of the price.

The duration for which capacity rights may be traded?

We consider that the minimum capacity trading interval be the balancing period and the maximum capacity trading interval be the remaining duration over which the transferor holds the capacity right.

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

We support the introduction of a short-term firm service. The current term of one year is inflexible and hinders the development of competition in the market. A one-year capacity term also introduces significant financial risks for a new entrant and a short-term service would reduce this.

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

We support the Commission's proposal to introduce a one-month firm service, as this appears to strike a balance between introducing adequate flexibility for a new entrant and not creating an administrative burden on the Transporter.

We do not agree that there should be a premium payable for a short-term service; the cost of providing short-term firm capacity is no greater than providing annual firm capacity. Potentially, the shipper could be taking increased risk by booking capacity on a short-term basis.

We consider that this service should be introduced on an interim basis, rather than waiting for a full review of all transmission tariffs.

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

The CER should take the approach that the Transporter offers an interruptible service at the lowest possible utilisation of the pipeline.

The interruptible service should be offered on separate parts of the pipeline system as appropriate. For instance, it should be possible to offer the service on one part of the system before another (e.g. onshore system before the inter-connector). This would lead to greater overall utilisation of the pipeline system and lead to reduced costs for all shippers. In the scenario where the Transporter is only able to offer interruptible capacity on the onshore system, then an interruptible service should be offered on the inter-connector as well.

As detailed in previous submissions we believe the interruptible service should be priced at a 100% load factor basis.

The desirability of the Transporter offering an authorised overrun service?

We consider it is desirable that the Transporter offers an authorised overrun service, particularly if it causes no operational constraints for the transporter. A measure such as this would assist new entrants to mitigate their financial risk without imposing any costs on the Transporter (when there are no operational constraints).

The duration of an authorised overrun service and pricing arrangements?

As there is unlikely to be a liquid market in capacity trading for some time, we consider this service should be available in periods ranging from 1 day to 1 month. We agree that the service should be limited at times of peak demand on the system, and the mechanism for withdrawing the service by the Transporter should be agreed with the CER.

We accept that there should be a small premium for this service over short-term firm and firm service.

The desirability of allowing overrun trading?

We agree that overrun trading should be allowed between shippers in the case where no costs are imposed on the system from capacity overruns.

The scope for increasing the flexibility of the nominations process, the potential costs involved and the likely interaction with upstream nominations procedures.

Our initial view is that the current nominations and re-nominations process appears to work in a satisfactory manner.

The adoption of an entry/exit balancing regime

Due to the complexity and risks associated with point to point balancing, we believe an entry/exit balancing regime should be adopted in Ireland.

The setting of imbalance tolerances by the Transporter

We strongly support the imbalance tolerance regime proposed by the CER where the imbalance tolerance determines the amount the shipper carries forward without any balancing charge from one period to the next. We also agree that the use of a penalty price that imposes arbitrary costs on shippers for being out of balance should be discontinued. Estimating balancing charges is a significant risk for a gas supplier and the introduction of this measure would help to mitigate this risk.

The role of the transporter in, and methods of, facilitating imbalance trading?

We accept that the Transporter is currently best placed to set up an information system to manage trading of imbalances between shippers.

We agree that an electronic system should be used which allows shippers to see their own imbalance position, the overall imbalance position and the identity of other shippers with whom trades may be undertaken. The Transporter should not have access to price information for the trading of imbalances.

Allowing ex-post trading of imbalances

We agree that bilateral imbalance trades should allowed to be made on an ex-post basis up to the final settlement of the residual imbalance.

Imbalance Charging

We support the CER's proposals for imbalance pricing as detailed in section 5.8 of the Consultation Document. Uncertainty over the level of imbalance charges is a key risk for a gas supplier and we believe these proposals would allow this risk to be managed in a cost effective way.

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

We support this arrangement provided a simple mechanism is put in place to support it.

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

We believe the Transporter should be given a financial incentive to minimise balancing costs, where the Transporter shares a proportion of the costs incurred with shippers above a certain target. This would give suppliers more confidence when budgeting for balancing charges.

Arrangements for settling residual imbalances

We support the CER's proposal that the residual imbalance be settled out at pre-determined prices where the Transporter had to take no balancing action (subject to the appropriate price level) and at market prices where the Transporter had to take balancing action.

Charges for divergences from nominations and nomination divergence tolerance levels.

We support the CER's proposal that scheduling charges are applied at a fixed level for divergences from nominations above a certain level (subject to agreement of the tolerance band).

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.

We accept that the Transporter is in the best position to determine the amounts of shrinkage gas; however, the estimates should be verified by the CER.

We support the CER's recommendation that the Transporter publish daily figures showing inputs and outputs to the system.

The CER's proposal that shippers adjust the quantities of gas injected into the system in accordance with the shrinkage factor is acceptable as long as it is pro-rated to actual volume shipped.

We support the CER's proposal that a target be set for the amount of shrinkage on a reward/penalty basis for bettering/exceeding the target.

Allocating all line-pack to the Transporter initially.

We accept that at this stage the market is not developed enough for allocating line pack to shippers but that the CER should review this on an annual basis.