

Marathon International Petroleum Ireland Limited

Commentary

on

Commission for Energy Regulation

Consultation Document on Market Arrangement Principles

27 September 2002

Section 3 – Gas Capacity; Investment and Trading

On page 7 of the document, the Commission requested a specific response to the following three questions:

1. *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.*
 - Marathon believe that an Entry / Exit balancing regime is fundamental to the development of a competitive market in the supply of natural gas and that the current point-to-point system is impeding its development. Therefore, Marathon supports the move towards an Entry / Exit system.
 - The point-to-point system was introduced on the assumption that eligible customers could only source their gas supplies in the UK and transport this gas from Moffat to the consumption site. Given the likelihood of three entry points to the network, the point-to-point system is no longer appropriate.
2. *The role of the Transporter in, and methods of, facilitating capacity rights trading.*
 - Marathon agree that the market arrangements should support capacity rights trading but our preference is for the operator of the trading mechanism to be selected on the basis of a competitive process. We support the Commission's proposal that the Transporter should be obliged to facilitate the operation of such a market.
3. *The duration for which capacity rights may be traded.*
 - Marathon agree that the minimum capacity trading interval should be the balancing period and that the maximum capacity trading period should be the balance of the period over which the transferor holds the capacity right.

Section 4 – Transportation Services

On page 12 of the document, the Commission requested a specific response to the following six questions:

1. *The desirability of the Transporter offering short-term firm service.*
 - ▪ Marathon supports the introduction of firm services of a duration of less than twelve months.
2. *The duration of short-term firm service and pricing arrangements.*
 - ▪ Marathon agree that shorter term services should be priced at a premium to the 12-month firm service.
4. *At what level of capacity utilisation the Transporter should offer interruptible services and pricing arrangements for this service.*
 - ▪ Marathon share the Commission’s concern that the availability of interruptible services could undermine the booking of firm capacity. We also believe that the availability of interruptible services will, in effect, cap the value of traded firm capacity rights. Therefore, we believe that the introduction of interruptible services should, in the shorter term, be in response to an abuse of the capacity trading market.
3. *The desirability of the Transporter offering an authorised overrun service and*
4. *The duration of an authorised overrun service and pricing arrangements.*
 - ▪ Marathon see little difference between interruptible and authorized overrun services. However, we believe that the punitive nature of the current overrun regime is a disincentive to the use of natural gas and needs to be overhauled. In this regard, we suggest that the overrun charge be restructured as a seasonally profiled multiple of the daily charge.
5. *The desirability of allowing overrun trading.*
 - ▪ Marathon supports the Commission’s views in this regard.

Section 5 – Nominations and Balancing

On page 23 of the document, the Commission requested a specific response to the following ten questions:

1. *The scope for increasing the flexibility of the nominations process, the potential costs involved and the likely interaction with upstream nominations procedures.*
 - The flexibility of the nominations process should reflect the Transporters ability to react to changes and not be driven by upstream nomination procedures. Specifically, re-nominations on the UK system are not permitted after 1:45 am. Such a restriction should not be transferred to other entry points.
 - In this way, flexibility services that can be provided by upstream operators can be made available to end users.
2. *The adoption of an entry/exit balancing regime.*
 - As stated above, Marathon believe that an Entry / Exit balancing regime is fundamental to the development of a competitive market in the supply of natural gas and that the current point-to-point system is impeding its development. Therefore, Marathon encourages and will actively support the move towards an Entry / Exit balancing regime.
3. *The setting of imbalance tolerances by the Transporter.*
 - ▪ Marathon are concerned with the complexity of implementing the proposal whereby shippers can carry forward imbalances.
 - ▪ We are also of the opinion that the introduction of a bid-based mechanism will significantly reduce the concerns that end-users have with respect to the punitive nature of the current balancing regime.
4. *The role of the Transporter in, and methods of, facilitating imbalance trading.*
 - ▪ Marathon believe that parties other than the Transporter should be considered for the role of facilitating imbalance trading.
5. *Allowing ex-post trading of imbalances.*
 - ▪ Marathon believe that the move to a market based balancing regime should reduce the need for ex-post trading of imbalances. Notwithstanding this belief, we see no reason why ex-post trading of imbalances should not be allowed, providing that the cost of providing this facility is not excessive.
6. *Imbalance charging and*
7. *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.*
 - ▪ Marathon agree that a relatively simple arrangement could be set up in Ireland under which shippers could submit bids to increase or decrease gas on the system, while in the absence of

sufficient bids, the system operator would still have access to the OCM in Great Britain.

- ▪ We note that the Code of Operations currently entitles the Transporter to interrupt end users as a means of redressing constraints on the system. End-users interrupted in this way receive no compensation. However, with a bid based mechanism, end-users will be able to bid gas into the system signalling the cost of such interruption to the Transporter and facilitating compensatory payments in the event of enforced interruption.
 - ▪ In a bid based system, gas is typically traded on an entry paid basis. However, gas purchased on the OCM is not entry paid into the Irish system and a suitable mechanism (such as the Flexibility Overrun Charge utilised in the Network Code) will be required to enable the OCM to be used as a liquid backstop.
 - ▪ Our preference is for the operator of this bid-based mechanism to be selected on the basis of a competitive process.
8. *Whether the Transporter should be given a financial incentive to minimise balancing costs and if so, the form such an incentive may take.*
- ▪ Although we support the principle of financially incentivising the Transporters actions, we agree that such a regime is unlikely to become practical for some considerable time.
9. *Arrangements for settling residual imbalances.*
- ▪ We agree with the Commission's views in this regard.
10. *Charges for divergences from nominations and nomination divergence tolerance levels.*
- ▪ Marathon supports the principle of full cost reflectivity but, since we also expect tolerance levels to be quite large in the shorter term, we favour deferring a detailed consideration of this proposal for the immediate future.

Section 6 – Shrinkage and Line-pack

On page 26 of the document, the Commission requested a specific response to the following two questions:

1. *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.

- ▪ Marathon agree that the Transporter is best placed to forecast the amount of shrinkage in the transmission system. However, we believe that the Commission should provide the Transporter with guidelines as to how the forecast is to be prepared. For instance,
 - (i) (i) The pressure at which the transmission system is operated directly impacts on the amount of shrinkage (compressor fuel gas usage can be halved by reducing system pressure from 70 bar to 50 bar.)
 - (ii) (ii) However, system security is enhanced at higher operating pressures.
 - (iii) (iii) Line-pack is also enhanced at higher pressures.
- ▪ Marathon have no objection to the Commission's proposal with respect to shippers providing for their own shrinkage.
- ▪ Marathon agree that the current framework does not provide adequate incentives to the Transporter to minimise the cost/amount of shrinkage in the system. However, the incentives must be carefully designed to ensure that system flexibility is not compromised. For instance, minimising shrinkage will reduce the amount of line-pack available on the system.

2. Allocating all line-pack to the Transporter initially.

- ▪ Marathon has no objection to all line-pack being allocated to the Transporter initially. However, we believe that the administration of a system of "line-pack accounts" should be no more onerous than that necessary for the proposed carry forward of tolerances.
- ▪ It is important that the cost of creating line-pack be fully reflected in any future system whereby line-pack is made available to other system users.