

**CONSULTATION ON MARKET ARRANGEMENT
PRINCIPLES**

**COMMISSION FOR ENERGY REGULATION
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SUBMISSION

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Contents

Contents	1
1. Introduction	2
2. Gas Capacity: Investment and Trading.....	3
2.1 Definition of Capacity Rights.....	3
2.2 Capacity Rights Trading	3
3. Transportation Services	3
3.1 Short-term Firm Service.....	3
3.1.1 Introduction.....	3
3.1.2 Modification 4 (a).....	4
3.1.3 Modification 4 (b).....	4
3.1.4 Timing.....	5
3.2 Interruptible Service.....	5
3.3 Capacity Overruns.....	5
3.4 Backhaul.....	6
4. Nominations and Balancing	6
5. Shrinkage and Line-Pack.....	6
5.1 Shrinkage	6
5.2 Linepack	7

1. Introduction

Ramco is the operator of the Seven Heads field which is expected to be in production in 2003. It will be the first indigenous Irish field to be produced outside the Kinsale field area.

Although Ramco is unlikely to be a gas shipper, purchasers of the gas will be. A number of the existing gas market arrangements provide a barrier to new indigenous gas fields and we would like to draw the attention of the CER to the issues involved.

Some of the issues that we would like to raise are particularly pressing and notwithstanding that the CER is conducting a comprehensive review of the market arrangements, there is a requirement for some interim adjustments prior to the completion of this review.

We have followed the headings used by the CER in making our comments.

2. Gas Capacity: Investment and Trading

2.1 Definition of Capacity Rights

Ramco supports the move to an entry/exit system. We believe the physical nature of the Irish gas transmission system (a ring main) makes this particularly appropriate. The essence of a ring main system is the added security achieved by gas offtake being met by any gas entry. The entry/exit model provides a much superior way to develop the Irish gas system than the point to point model used currently.

The entry charges should continue to be on the existing cost reflective basis and under no circumstance be postalisised. Any move away from cost reflective principles is likely to be discriminatory against the development of indigenous gas at a time when the Irish government is seeking to encourage both exploration and development of this resource.

We do not see that it is appropriate to break the system into zones in view of the limited size of the Irish gas system.

2.2 Capacity Rights Trading

We support the Commission's proposals on capacity trading. In particular we support the requirement that the Transporter should provide an electronic system for capacity trading. We also support the proposal on the capacity time periods.

We also note that transparency in terms of actual capacity available and capacity booked is an important part of developing the market for capacity trading and we would encourage the CER to develop proposals for this.

We would also mention that the current practice of a BGE requirement to book annual capacity on a quarterly basis appears not to be based on the Code of Operations and should be abolished.

3. Transportation Services

3.1 Short-term Firm Service

3.1.1 Introduction

The Commission notes that a short-term firm capacity could provide shippers with more flexibility. Ramco believes that the current capacity regime involving the booking of firm capacity in no less than 12 month periods is restricting the development of the Irish gas industry.

The discussions regarding Code of Operations Modification 4 illustrate the strains that this 12 month system involves and this issue is subject to another CER consultation paper. However some of the issues raised by Modification 4 are relevant to this current consultation.

3.1.2 Modification 4 (a)

Modification 4 (a) covers a requirement for switching of capacity from one entry point to another in order to facilitate the introduction of a new gas source. As it would be unlikely that a 12 month capacity booking coincided with the start of an offshore field there is a problem with a requirement to continue to purchase the original capacity whilst in addition purchasing the new capacity.

The introduction of short-term capacity could provide a solution to this particularly if some transitional arrangements allowed existing holders of 12 month capacity to switch to short-term capacity.

The Consultation Paper suggests that a short-term service would be offered if:

- (a) there is spare capacity
- (b) it was on a fully cost-reflective basis

Ramco supports these principles but would note in the actual situation in Ireland particularly with respect to the Moffat Interconnector there will be no shortage of capacity at any time of year when the second line comes into action later this year. This leads to the conclusion that peak short-term capacity should not be charged at a rate higher than the 12 month charge. Ramco consider that the charge for winter peak should not be more than a small multiple such as 1.5.

3.1.3 Modification 4 (b)

Modification 4 (b) covers a requirement for providing a short-term back up service involving the reservation in advance of capacity. Again the introduction of a short-term capacity service would provide a solution to this issue. Provided that capacity was available (which at Moffat appears to be the case) then capacity could be purchased if needed. However we note that Modification 4 (b) was based on a standard service for 5 days whereas the short-term capacity would require a minimum booking of a month.

The comparison of the Modification 4 (b) proposal and a short-term capacity regime depends crucially on the seasonal loading of the charges for the winter and shoulder months. Modification 4 (b) is based on a loading of 4 times the daily capacity tariff. As we mention above in view of the ample Moffat capacity this weighting should not be more than a multiple of 1.5.

3.1.4 Timing

The Commission suggest that they will consider the pricing arrangements for the short-term firm service as part of its review of transmission tariffs. The timing of this is likely to be determined by the requirement for the Commission to agree tariffs prior to 1 October 2003.

This timing causes a problem in the development of the Seven Heads field as there is a requirement to have the problems addressed by Modification 4 addressed in the next few weeks in order to allow gas buyers certainty in respect of switching gas supply.

Ramco will address this problem directly in our submission on Modification 4. The alternatives are likely to be:

- (a) A rapid introduction of a temporary short-term capacity, or
- (b) The adoption of a short-term fix such as a variant of Modification 4¹ at a cost no more than the cost of short-term capacity

We therefore urge the Commission to consider transitional arrangements for the current 2002/3 gas year.

3.2 Interruptible Service

Ramco supports the introduction of an interruptible transportation service.

The Commission asks for comment regarding the level of capacity utilisation that should be required in order to trigger the offering of interruptible services. Ramco notes that BGE does not currently publish the capacity of the entry points² and without this it is not possible to give a precise numerical proposal.

However in concept Ramco believes that the proportion should be low. One concept would be to fix the level at the proportion of Moffat capacity represented by IC1 against the capacity represented by IC1 plus IC2.

The issue of IC2 again arises in the question regarding whether an interruptible shipper should contribute towards the costs of capacity.

3.3 Capacity Overruns

Ramco has no comments in this area.

¹ Aspects of Modification 4 are highly discriminatory towards Seven Heads. In particular the incremental costs of Modification 4 (a) (continuing to pay the higher terminal charge) would be for Corrib approximately 40% of the Moffat tariff. For Seven Heads due to the much lower Inch capacity charge this would be virtually 100% of the Moffat tariff!

² Generally the provision of this type of system information by BGE should be required by the CER.

3.4 Backhaul

The CER document does not mention the introduction of backhaul which needs to be seriously considered both in the context of the existing point to point system and any move to entry/exit.

4. Nominations and Balancing

Ramco has no comments in this area.

5. Shrinkage and Line-Pack

5.1 Shrinkage

This again is an area where lack of basic system information makes commenting difficult. The Commission notes that reasons for shrinkage include:

- (a) Own use gas (e.g. compressor fuel)
- (b) Measurement errors
- (c) Leakages
- (d) Theft of gas
- (e) Other unaccounted for gas

However no information is provided which give the amounts that are involved. Based on an understanding of the Irish gas system it is likely that the most significant of these are likely to be the use of gas for compression.

The use of gas for compression will vary on a day to day basis depending particularly on the gas supply pattern. In addition experience in the UK suggests that the use of entry/exit tends to increase the use of compression.

The Commission has proposed that shippers should supply an agreed amount of gas to cover shrinkage. We do not believe that this is sensible as the requirements for shrinkage are likely to vary on a daily basis. On days where compression is not required the injection by shippers of extra gas will mean that the system will go out of balance.

The requirement for the Transporter to optimise compression in our view is more important than the minor savings that might be gained by shippers acquiring shrinkage gas rather than the Transporter. We, therefore, do not support the Commissions' proposals in this area.

Setting targets for minimising the shrinkage gas would require an independent assessment of the Transporter's annual plans.

5.2 Linepack

Ramco supports the Commission's proposals to allocate line-pack at present to the Transporter.