Consultation on the Consultation Document on Market Arrangement Principles (CER/02/124)

A response from Viridian

Section 3:

Q.3.1: 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.

The current point-to-point system in Ireland is highly inflexible. Due to this inflexibility, and due to the extremely high transportation and penalty costs operated in the system, it is a non-user friendly system and indeed is a significant deterrent to any potential gas user considering operating in Ireland. The cost of capacity in Ireland for any significant user of gas is huge. Any mechanism that will allow flexibility in capacity usage should have the effect of reducing this economic burden on gas users.

The point-to-point system has not worked. It is suggested in this paper that "capacity rights can be specified in a way that reduces the Transporters role and discretion in approving capacity trades". It appears highly unlikely that that this will occur in Ireland if one maintains the point-to-point regime. If one looks at Modification 1 to the Code of Operations where Shippers tried to get flexibility and autonomy in capacity trading, one has to say they failed. Modification 1 as it stands has so many caveats with rules and approval mechanisms that it is essentially unreliable and unworkable for most Shippers. The only way to guarantee the best working capacity regime and ensure the most efficient use of Shippers capacity is to operate an Entry/Exit regime in Ireland.

Q.3.2: The role of the Transporter in, and methods of, facilitating capacity rights trading.

Unless there is a serious operational issue in the system the Transporter should have no direct involvement in capacity transfers. All capacity transfers should be registered with the Transporter so that he can see how the system is and will behave but no action should be necessary from the Transporter. In relation to the Transporter having the obligation to set up an electronic Capacity Transfer system Viridian would be concerned about the cost implications of same. If one considers the costs incurred in getting GTMS up and running, and the on-going operational costs of same, one would be fearful that such a new system would further economically burden the gas industry in Ireland. Independent analysis of any system would need to occur to ensure the Gas Industry is getting the best value for money.

***Q.3.3: The duration for which capacity rights may be traded*.**

As capacity is such a significant cost to any gas user in Ireland, and thus a significant risk, Shippers should be allowed to trade capacity rights in lots of 24 hours. If an electronic system is to be set up to deal with capacity trades then even shorter capacity transfer periods (in the region of 4-6 hours) should be possible.

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Section 4:

***Q.4.1: The desirability of the Transporter offering short-term firm service*.**

In principle short-term firm capacity should always be offered in any gas market. In the Irish market, as there will be a surplus of capacity, Short Term firm service should be offered by the Transporter at a cost that is higher than the pro-rata long-term rate and at a rate that encourages shippers to book the long term capacity.

***Q.4.2: The duration of Short-term firm service and pricing arrangements*.**

The aim should be to offer Short-term firm service on a daily basis. The pricing arrangements should be some multiple of the pro-rata annualised tariff, seasonally-adjusted to take account of max demand periods when capacity has its highest value. The tariff should be at a rate that encourages long term booking of capacity but at a rate that is not highly penal. Thus initial rates should be decided upon and depending on how the market reacts to this rate alter the rates to meet the desirable result in the following year. Initial rate suggested is that the multiple would be in the region of (1) 4.0 for winter (2) 3.0 during Shoulder months and (3) 2.0 for Summer months.

Q.4.3: At what level of capacity utilisation the Transporter should offer interruptible services and pricing arrangements for this service.

Interruptible service by its nature should be cheaper that firm capacity. In Ireland with a surplus of capacity, if the Transporter is guaranteed his income then interruptible capacity service offers some players a cheap way of getting capacity in the knowledge it is unlikely to be interrupted, which would burden players who book firm. Thus interruptible service should only be offered if by its existence it does not unduly burden others who book firm.

***Q.4.4: The desirability of the Transporter offering an authorised overrun service*.**

This should be offered.

***Q.4.5: The duration of an authorised overrun service and pricing system*.**

Authorised overruns should be allowed on a daily basis. However there should be some restriction on the number of authorised overruns allowed consecutively and within a monthly period to encourage the shipper to deal with the problem – these restrictions should be possible to be waived in exceptional circumstances.
Authorised overruns should be priced at a rate which encourages prudent behaviour and as such should be a multiple of the pro-rata annualised daily rate. It is suggested that the rate be in the region of 10.

Q4.6: The desirability of allowing overrun trading.

This should be offered.

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Section 5:

Q.5.1: The scope of increasing the flexibility of the nomination process, the potential costs involved and the likely interaction with the upstream nominations procedures.

The 01.45 deadline is in the system as last nomination time due to the Moffat Agency agreement and is as such driven by the UK gas Market and the length of time it takes Transco to take all nominations for such a huge system as the NTS and effect them. In relation to Ireland, for nominations to Moffat this time frame may have to stay although there should be some flexibility built into the Code and the GTMS to as the only true restriction is the shutting down of the AT Link from 04.00 to 06.00 – hence from 01.45 to 03.45 there should be possible renominations. In addition when looking at Corrib and Inch there should be no need for such tight restrictions and renominations should be allowed up to 04.45 – it is unclear today if such flexibility is in place already as only one party is allowed to ship through Inch and such information is not in the public domain.

Ref the 10.00 [D-1] deadline there is a view that, especially for power generators, this should be an initial estimate (needed to comply with the Moffat Agency agreement anyhow). When the SSA provides its anticipated "Run Order" at approx 4.00pm (CER should note that this is not mandatory on the SSA currently but should be made so), then and only then should the Shipper make its "Day Ahead" nomination before 5.00pm.

The above outlined changes should have no cost implication on the system of Shippers.

Q.5.2: The adoption of an Entry/Exit balancing regime.

Viridian fully support the adoption of the Entry/Exit balancing regime.

Q.5.3: The setting of imbalance tolerances by the Transporter.

The principle of allowing some use of line-pack by Shippers by allowing them to carry forward an imbalance within a certain tolerance does seem to be a much fairer method of dealing with Imbalances than the current penal system, and as such Viridian support its implementation. The level of the imbalance tolerance however should be assessed by the system operator (does not have to be the asset owner) and independently verified by a reputable consultant company with expertise in these matters so as to avoid an overly cautious tolerance band being implemented.

Q.5.4: The role of the Transporter in, and methods of, facilating imbalance trading.

Viridian agree with the CER that it is highly likely that there will be efficiency and system benefits in the Transporter organising a system of imbalance trading (inclusion on the GTMS for example). However quotations should be sought from several other parties (who will receive real time information from the Transporter free of charge) in order to ensure that the best value for money system is implemented.

Q.5.5: Allowing ex-post trading of imbalances.

Based on the fundamental principle that if there is one party with a positive imbalance and another party with a negative imbalance Ex-post trading of imbalances should always be allowed, regardless of the extent of the imbalance as the "System" has not been stressed.

Q.5.6: Imbalance charging.

Viridian support the CERs suggestion of Shippers submitting bids/offers to the system in order to allow the Transporter balance the system at the most uneconomical price and if the prices submitted by Shippers are better than the alternative of the OCM in the UK then the bids would be accepted by the Transporter in the event he has to take balancing action.

However if the Transporter has not had to take balancing action during a day (due to sufficient pressure/line-pack in the system) and a Shipper has incurred an imbalance which he cannot trade-out, the Shipper should have the option to bring into/buy out from the system the relevant volume of gas in the next balancing period so as to allow him to attain a balanced position.

Q.5.7: 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.

Viridian support this suggestion.

Q.5.8: Whether the Transporter should be given a financial incentive to minimise balancing costs and if so, the form such an incentive may take.

If the Transporter is incentivised to reduce balancing costs by minimising balancing actions by effectively using system line pack one must be careful that the incentive is not dearer that the cost of the imbalance action on an on-going basis. Also one could argue that as Shippers are paying the costs of the Transportation system, if at the end of a balancing period it is found that there was a system imbalance but that the system was not made insecure in anyway, then if the Shippers who were imbalanced rectified their imbalance in the next balancing period then no imbalance charge should accrue to such shippers. This effectively allows shippers some use of line-pack in the system they are paying for.

Q.5.9: Arrangements for settling imbalances.

Imbalances should be settled via an electronic system (perhaps the GTMS) in the manner outlined above..

Q.5.10: Charges for divergences from Nominations and nomination divengence tolerance levels.

Viridian support the view of the Transporter that Scheduling Charges should be reflective of any real costs incurred and that the Scheduling charge should only apply when the difference between nomination and actual is quite large. Viridian suggests that an independent audit by experienced consultants verify the results of BGEs analysis that the CER has suggested they perform. Viridian feel that the current regime for Scheduling is not unduly penal but due to lack of information concerning the effect on the system or the corresponding costs is not in a position to comment as to whether or not it is cost reflective or not.

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Section 6:

Q.6.1: Arrangements for (i) determining the amount of shrinkage on the transportation system (ii) procuring shrinkage gas, and (iii) incentivising the Transportation to minimise the amount of shrinkage on the system.

There is no information in the general public domain in relation to the BGE pipeline system, how efficient it is, the pressures, pipe sizes, etc. etc. Hence it is impossible for any external party to BGE to comment on how its transportation system is performing. Viridian would suggest that the CER employ independent consultants to analyse the BGE system. Then taking this information they can assess if the shrinkage (and other) arrangements are in line with best industry practice and in line with internationally accepted norms.

Shrinkage gas should be procured in the same manner as suggested for the Balancing gas i.e. Shippers submit bids/offers which the Transporter accepts in they are better that some index price.

Transporter should be incentivised to reduce Shrinkage costs but only when the Transporter has achieved levels that are in line with European/US norms.

__Q.6.2: Allocating all line-pack to the Transporter initially__.

Until such time as the CER has had its consultants analyse the BGE system to know what buffer is there for security of system it is prudent that the Transporter have all "within-day" line-pack – however post day (as suggested earlier) if the system was imbalanced although within acceptable "limits" then Shippers should have access to this and avoid being penalised (as long as they make the imbalance up in the next balancing period). However if the analysis performed by CER consultants proves there is ample security in the system then some/a good deal of the the line pack should be made available to shippers on a daily basis.

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