



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

Gas Market Advisory Group

1. INTRODUCTION

The Commission for Energy Regulation (the “Commission”) published the Consultation Document on Market Arrangement Principles,¹ which established the principles to be applied in the review and development of the gas market arrangements.

To assist the Commission in its review, the Commission has established an advisory group to represent the views of the gas industry. This paper sets out the responsibilities and structure of the Gas Market Advisory Group (GMAG), the key issues to be considered and their priorities, and the proposed timetable to completion of the review.

2. STRUCTURE AND RESPONSIBILITIES OF THE GMAG

2.1. Terms of Reference

The Gas Market Advisory Group is asked:

1. To assist the Commission for Energy Regulation in its review and development of market arrangements including but not limited to gas balancing, trading rules, access arrangements, Code(s) of Operations and metering;
2. To discuss and make recommendations on the principles, the detailed business rules and any necessary legal documents that should govern proposed changes to gas market arrangements;
3. To represent to the Commission the views of all parties operating in each part of the gas industry through appropriate representative channels; and
4. To set up from time to time appropriate working groups to discuss specific areas of work and to review membership of the advisory group as appropriate to take account of changes in the gas industry.

2.2. Powers of the GMAG

The GMAG will not have specific powers to implement changes to market arrangements as such, those powers will reside at all times with the

¹ “Consultation Document on Market Arrangement Principles” published by the Commission for Energy Regulation (CER/02/117) 28 August 2002.

Commission and are as set out in the relevant parts of the 2002 Act.² As the work of GMAG progresses, the Commission will continue to take account of representatives' views but will make final decisions after careful consideration of all evidence presented.

The work of the GMAG will be *in addition to* that of the existing Modification Panel concerning the current Code of Operations. The latter will continue to meet on a regular basis to ensure continuity and appropriate development of existing arrangements.

2.3. Structure

The following table lists the representatives of each constituency on GMAG and their contact details.

Constituency	Organisation	Representative	Email	Phone
CER	CER	Kieran McNamara	kmcnamara@cer.ie	01 4000800
TSO	BGE Transmission	Denis Twomey To be confirmed	dtwomey@bge.ie	021 4534315
DSO	BGE Distribution	Paul O'Donoghue Liam Nolan	podonoghue@bge.ie lnolan@bge.ie	01 6026486 01 6021060
Shippers/Suppliers	BGE Energy Supply	Tony O'Leary To be confirmed	aoleary@bordgais.ie	
(IPP)	Viridian	Derek Russell Garrett Blaney	drussell@vpower.ie gblaney@vpower.ie	01 8692019 01 8692012
(IPP)	Synergen	Paddy Hayes (to be confirmed) To be confirmed	paddy@synergen.ie	
(ESB PG)	ESB PG	Brendan Barry Diarmuid Lynch	brendan.barry@mail.esb.ie diarmuid.lynych@mail.esb.ie	01 7027538 01 7026169
(CHP/small generator)	Dairygold	Dermot Kelleher To be confirmed	dermotkelleher@dairygold.ie	
(Large self-supplier)	Premier Periclase	Gerry Teeling To be confirmed	gteeling@premierpericlase.ie	041 9870754
Gas Producers	Enterprise Energy Ireland	Dermot O'Kane Michael Murphy	dermot.o'kane@dublin.entoil.com michael.murphy@dublin.entoil.com	01 6694108 01 6694106
	Ramco	Terry Jones Dan Stover	terry.jones@ramco-plc.com dan.stover@ramco-plc.com	0044 1224352200
	Statoil	Robert Cross Elsa Ingham	rob.cross@statoil.com elsa.ingham@statoil.com	0044 2074106157 0044 2074106102
Storage Operator	Marathon	Kieron Carroll Cathal Ahern	kmcarrroll@marathonoil.com cmahern@marathonoil.com	021 4356250 021 4356241
Potential Market Participants	Aughinish Alumina	John Ryan Mike Ronan/Sean Garland	john.ryan@augh.com mike.ronan@augh.com / sean.garland@augh.com	061 604268 061 604082/ 061 604357
	Flogas	Mark Gannon Ciaran Costelloe	mgannon@flogas.ie ccostelloe@flogas.ie	041 9831041 041 9831041
	Innogy	Charles Ruffell Richard Harper	charles.ruffell@innogy.com richard.harper@innogy.com	0044 1793893983 0044 1793892778

Each member of the GMAG will:

² For example Section 13 (3) of the 2002 Act gives the Commission powers to give directions to a particular licensee with respect to matters to be specified in its code of operations and to direct the licensee to review and revise its code of operations from time to time.

- Be committed to attend all meetings of the advisory group, though nominated alternates are permitted;
- Contribute to the debate on issues and if necessary provide papers and any other support if it is agreed by the group as appropriate;
- Represent the views not of their own organisation, but those of all organisations in their constituency; and
- Report back to their constituency members on a regular basis.

It is expected that work streams or working groups will be set up from time to time to deal with specific issues and report back to the main advisory group.

Each member of the GMAG will be expected to meet its own costs.

The Commission will:

- Chair the GMAG and will have one additional representative;
- Act as administrator and circulate agendas, papers and other materials as appropriate;³
- Ask its advisers to attend meetings of the group as appropriate;
- Provide meeting facilities as required.

The Commission's role is to act as a facilitator to the process of discussion and agreement. The Commission will present proposals for appropriate changes that are designed to meet its duties and functions as well as the objectives it has set out in section 3 below. It will aim to take account of the opinions of the gas industry before making any final decisions.

It is anticipated that meetings will be held fortnightly.

3. OBJECTIVES OF THE REFORM OF THE MARKET ARRANGEMENTS

In developing the proposals for reform of the gas market arrangements, the GMAG must have the following objectives in mind:

³ The Commission will also act as Secretary to the GMAG. In preparation for each meeting, the Commission will circulate a meeting agenda, relevant papers and other materials and the minutes of the previous meeting, at least one week in advance.

- The promotion of competition
The removal of potential barriers to entry into the natural gas market in Ireland (e.g. complexity, inflexibility). In particular, shippers should be able to participate freely in those market segments open to competition.
- Transparency and cost-reflectivity of price signals
For use of the transmission system, shippers should pay the costs they impose on the transmission system. Therefore pricing arrangements should reflect, and should be seen to reflect, actual costs.
- Transparency of market arrangements
Where a third party provides a service on behalf of the transporter, the procurement and provision of that service should be transparent to all participants.
- Avoiding, where appropriate, conflict with electricity market arrangements
Changes to the gas market arrangements should be considered in the context of electricity market reform.
- Encouraging efficient use of the system
The gas market arrangements should provide incentives and opportunities for effective use of the transmission system by shippers.
- Maintaining a secure and reliable system, which meets supply quality standards.

The gas market arrangements should provide the transporter with flexibility and incentives to maintain a secure and reliable transmission system.

Notwithstanding these objectives, the guiding principle behind acceptance of any reform to the gas market arrangements should be that the potential benefits of such reform outweigh the costs of its implementation.

4. ISSUES TO BE COVERED BY THE GMAG AND PRIORITIES

The Commission has reviewed the responses to the Consultation Document on Market Arrangement Principles and has identified those issues where there appears to be broad industry consensus. The Commission has classified the remaining issues into three priority categories (high, medium and low priority issues) based on its assessment of the complexity and importance of both the issue and the implementation of any reforms, as well as the diversity of views within the industry.

The remainder of this section sets out all the issues for consideration by the GMAG.

4.1. High Priority Issues

4.1.1. Definition of Capacity Rights

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 Commission has decided that this issue should be put to the GMAG for discussion. Given the implication of this decision on transmission tariffs, this should be a high priority issue.

4.1.2. Short-term Firm Service

The desirability of the Transporter offering short-term firm service

Price of short-term firm service

The duration of short-term firm service

The Commission has decided that this issue should be put to the GMAG for discussion. The Commission's view is that a short-term firm service may be necessary to provide flexibility to Shippers but that the pricing arrangements should ensure that the provision of a short-term service does not put the Transporter's financial position at risk. Given the support within the industry for a more flexible firm service, this should be a high priority issue.

The Commission considers that where a short-term firm service is provided, service duration of one-month is appropriate.

4.1.3. Timeframe for Imbalance Trading

Allowing ex-post trading of imbalances until settlement

The Commission has decided that this issue should be put to the GMAG for discussion. The Commission's view is that ex-post trading of imbalances should be allowed up to settlement, and that therefore this is a high priority issue.

4.1.4. Imbalance Charging

Cost-reflective versus penal imbalance charging

The Commission has decided that this issue should be put to the GMAG for discussion. Given the support within the industry for cost-reflective charging, this should be a high priority issue.

4.2. Medium Priority Issues

4.2.1. Capacity Rights and Imbalance Trading

Methods of facilitating, and the role of the transporter in, capacity rights and imbalance trading

The Commission has decided that this issue should be put to the GMAG for discussion. In particular, the Commission is looking to the GMAG to assess whether it is more efficient/effective (1) to develop the current GTMS to facilitate such trading or (2) for a third party to operate a separate system (as in the case of the VIPP [system] in electricity).

4.2.2. Time Periods for which Capacity is Traded

The minimum and maximum capacity trading interval

The Commission's view is that intervals of a balancing period and the remaining duration of a capacity right respectively are appropriate. However, the proposal of a shorter period (4-6 hours), as raised in the consultation responses should be put to the GMAG for discussion.

4.2.3. Nominations Process

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

The Commission notes the general level of satisfaction with the current regime, as evidenced by the consultation responses. Nonetheless, the Commission envisages that this issue will be put to the GMAG, with a view to retaining the existing arrangements unless the GMAG identifies valid reasons for change at this point in time.

4.2.4. Balancing Regime

The adoption of an entry/exit balancing regime

The Commission has decided that this issue should be put to the GMAG for discussion. The Commission's view is that entry/exit balancing would increase flexibility for Shippers, although any additional views will be considered.

4.2.5. Imbalance Tolerance

The setting of an imbalance tolerance by the Transporter

The Commission has decided that this issue should be put to the GMAG for discussion. Given the arguments against such an arrangement raised through the consultation responses, the Commission considers the implementation of an imbalance tolerance should be described in greater detail, and will circulate a note on this topic.

4.2.6. Provision of Balancing Gas

An arrangement whereby shippers in Ireland provide balancing gas

The consultation responses yielded no clear industry consensus on this issue. The Commission has, therefore, decided that it should be put to the GMAG for discussion. The Commission wishes to establish: the level of satisfaction with the current arrangements, the reasons for any dissatisfaction, and potential remedies within the current arrangements or alternative arrangements.

4.2.7. Incentives to Minimise Balancing Costs

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

The Commission has decided that this issue will be put to the GMAG, for consideration in the context of the regime for procuring balancing gas (see 4.2.6).

4.2.8. Shrinkage Gas

Arrangements for (i) determining the amount of shrinkage on the transportation system, (ii) procuring shrinkage gas, (iii) incentivising the Transporter to minimise the amount of shrinkage on the system.

The Commission has decided that this issue should be put to the GMAG for discussion. The Commission wishes to establish: the level of satisfaction with the current arrangements for the provision of shrinkage gas, the reasons for any dissatisfaction, and potential remedies within the current arrangements or alternative arrangements.

The Commission has decided that an incentive to minimise the amount of shrinkage is necessary, and that the form of such an incentive should be put to the GMAG for consideration.

4.3. Low Priority Issues

4.3.1. Interruptible Services

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

The Commission has decided that this issue should be put to the GMAG for discussion. However, given the expected level of flexibility in the transmission system, the Commission views this as a low priority issue. Notwithstanding, the pricing arrangements for interruptible service will be covered by the review of transmission tariffs.

4.3.2. Revenue Neutrality

Arrangements for settling residual imbalances.

The Commission has decided that this issue should be put to the GMAG for discussion. However, given that the neutrality regime will need to take account of all services (and corresponding charges) covered by the Code of Operations, this issue should be considered once the services (and charging regime) has been finalised. Therefore, this is a low priority area.

4.3.3. Nomination Divergences

Charges for divergences from nominations and nomination divergence tolerance levels.

The Commission has decided that this issue should be put to the GMAG for discussion. Nomination divergence (or scheduling) charges are provided for in the Code of Operations but have not been implemented. It is an issue whether these charges should be implemented, and if so, whether the current provisions in the Code of Operations are adequate.

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

Allocating all line-pack to the Transporter initially.

The Commission considers that all line-pack should be allocated to the transporter initially.

4.3.5. Overruns

The desirability of the Transporter offering an authorised overrun service, pricing arrangements

Overrun trading

The consultation responses did not demonstrate strong support for the provision of this service by the transporter. Therefore, the Commission has decided to defer consideration of this issue.

Even though there was little support for authorised overruns, there was some support for overrun trading limited to non-critical days. Therefore, the Commission has decided that this issue should be put to the GMAG for discussion.

4.4. Summary

The following table summarises the issues to be discussed by the GMAG and priorities.

	High Priority Issues	Medium Priority Issues	Low Priority Issues	Note
Definition of capacity rights	x			
Methods to facilitate capacity right trading		x		
Time periods for which capacity is traded		x		
Short-term firm service	x			
Duration of short-term service				One-month if offered
Level of utilisation for offering interruptible services			x	
Authorised overrun				Deferred
Overrun trading			x	
Nomination process		x		
Balancing regime		x		
Imbalance tolerance		x		
Methods to facilitate Imbalance trading		x		
Timeframe for ex-post imbalance trading	x			
Imbalance charging	x			
Provision of balancing gas		x		
Incentives to minimise balancing costs		x		
Revenue neutrality			x	
Nomination divergences			x	
Determining the amount of shrinkage		x		
Procuring shrinkage		x		
Incentives to minimise the amount of shrinkage		x		
Allocation of line-pack				To be allocated to the transporter initially

5. PROPOSED GENERAL TIMETABLE

Task	Months												
	Nov 02	Dec 02	Jan 03	Feb 03	Mar 03	Apr 03	May 03	Jun 03	Jul 03	Aug 03	Sep 03	Oct 03	Nov 03
A. High Priority													
1. Definition of Capacity Rights						▲						×	
2. Short-Term Firm Service						▲						×	
3. Timeframe for Imbalance Trading						▲							
4. Imbalance Charging						▲							
B. Medium Priority													
1. Capacity Rights and Imbalance Trading						▲							
2. Time Periods for Capacity Trades						▲							
3. Nominations Process													
4. Balancing Regime													
5. Imbalance Tolerance													
6. Provision of Balancing Gas													
7. Incentives to Minimise Balancing Costs													
8. Shrinkage Gas													
C. Low Priority													
1. Interruptible Services													
2. Revenue Neutrality													
3. Nominations Divergences													
4. Overruns Trading													

Key ▲ decision date

× implementation date

Note: Reference to implementation date refers to the date from which the modification should be available

6. AGENDA FOR 1ST MEETING OF THE GMAG

1. Structure and Responsibilities of the GMAG
 - Terms of Reference
 - Powers of the GMAG
 - Structure
2. Objectives of the Reform of the Market Arrangements
3. Issues to be covered by the GMAG and Priorities
4. Proposed General Timetable

7. AGENDA FOR 2ND MEETING OF THE GMAG

It is envisaged that initial discussion of the high priority issues will take place during the second meeting of the GMAG. To this end, and based on the consultation responses received, the Commission has identified the different aspects of these issues it expects will be addressed during the GMAG discussions.

7.1. Definition of Capacity Rights

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

Aspects to be considered include:

- Scope for providing greater flexibility through modification to existing approach to defining capacity rights
- Operational implications of adopting an entry/exit regime for the definition of capacity rights
- The impact on systems requirements of adopting an entry/exit regime for capacity:
 - Costs of modifying existing systems or developing new systems
 - Timeframe for implementing necessary systems changes

7.1.1. Short-term Firm Service

The desirability of the Transporter offering short-term firm service

Price of short-term firm service

Aspects to be considered include:

- Appropriate premium above long-term firm service for short-term service (including the financial implications of offering such a service for the transporter)

7.1.2. Timeframe for Imbalance Trading

Allowing ex-post trading of imbalances until settlement

Aspects to be considered include:

- Implications (if any) of increasing ex-post imbalance trading timeframe for use of the transmission system
- Existing restriction on trading 2nd tier imbalances

7.1.3. Imbalance Charging

Cost-reflective versus penal imbalance charging

Aspects to be considered include:

- The rationale behind the existing arrangement under which penal charges may be levied for imbalances
- Implications of adopting cost-reflective imbalance charging for use of the transmission system