

Submission from ESB Consultation on Natural Gas Policy Framework

June 2002

Whether BGE's transportation activities should be legally separate from BGE's competitive activities

ESB does not have any views as to any necessity for legal separation. However, effective ring fencing of the transportation and competitive activities is necessary.

The appropriate high-level approach for allowing open access to transmission pipelines - common carriage or contract carriage.

ESB is supportive of the common carriage approach. It is unlikely that contract carriage would be in the best interests of the Irish market due to its nature and size.

The appropriate pricing policy for interruptible customers

Whether shippers should, even in conditions of excess capacity, be able to contract for short-term services from the Transporter at regulated prices.

A secondary market already exists for the trading of short-term capacity. Notwithstanding this, it is likely to be of benefit to the Irish market in the longer term that short-term capacity services are available from the Transporter, where physically possible. It is agreed that pricing policy with respect to any such Transporter services needs to be examined.

The suggestion of transferring the responsibility for replacing shrinkage gas to shippers.

ESB has no issue with the Transporter being involved in the buying or selling of gas in so far as this is for the supply of shrinkage gas. However, the Transporter should be better incentivised to minimise shrinkage gas costs through a regulated allowance incorporated into the transportation tariffs.

Whether connection policy should be based on the principles of "deep" or "shallow" charging.

ESB position is that shallow connection charging is more appropriate. It is unlikely that contract carriage would be in the best interests of the Irish market due to its nature and size.

Whether a gas spot market is likely to be viable in the near future.

The Irish Market is small and is essentially dominated in the short and longer terms by UK market prices. ESB is of the opinion that an active and liquid spot market in Ireland in the near term is unlikely to be viable. Notwithstanding this, through its review of the code of operations, the Commission should seek to develop an Irish Balancing Point concept, this being a requirement for any future developments towards a gas spot market.

Whether gas trading arrangements, and in particular the creation of a spot market should be the responsibility of shippers and suppliers as opposed to the Commission.

It is our view that shippers and suppliers should be responsible, at least in the short term, for the further development of trading arrangements rather than the commission.

Ways in which the trading of capacity rights might be improved and which role, if any, the Commission may play in capacity trading.

A secondary market already exists for the trading of capacity. However, it is agreed that the Commission should examine ways, including market signals, of ensuring that all available capacity is optimally used.

Whether a balancing period of less than a day would be appropriate for the Irish natural gas market over the longer term.

It is our view that the current requirement to balance daily is appropriate. Shorter periods are not warranted and would create excessive and unnecessary costs on the Irish System.

Notwithstanding any UK developments, every effort should be made to retain daily balancing of the Irish Gas System.

The appropriate approach for balancing - on a point-to-point basis or entry/exit basis.

ESB is in favour of an Irish national balancing point concept. Point to point balancing is unnecessarily restrictive and gives rise to a sub-optimum use of the transportation system.

Whether the current nominations process needs to be changed, and if so how.

The current nomination procedures are broadly acceptable.

However, an issue arises whereby gas attempts to track in real time, gas fired electricity generation demand, which under Electricity market rules is controlled by electricity TSO dispatch. This is more impactful on ESB Power Generation as a generator of last resort. Clearly, gas does not have the same physical ability to respond to increased offtake calls. The nature of the Irish gas market means that difficulties arise in the trading response also (gas must be nominated and traded outside Ireland to give effect to a response). It is unlikely that the trading response can be significantly improved given the nature, size and electricity generation domination of the Irish Gas markets. However, it is our view that the adequacy and timeliness of information flows from the electricity TSO to generators should be reviewed with a view to assisting generators in avoiding gas imbalance positions.

Whether a real-time market mechanism for increasing and/or decreasing gas on the system should be created.

It is unlikely that the market for balancing gas is significant enough to warrant a market mechanism. It is also unlikely that this could be effected within Ireland, at least in the immediate future. More important is the need to address the fundamental principles of the balancing gas charge system in any review of the code of operations.

Currently, shippers are required to balance intakes and off-takes on a daily basis. After day trading of imbalances between shippers is allowed within specified tolerances. Positions are settled at the balancing gas price. Once outside the specified tolerances, no trading is permitted and penalty charges apply. This can occur in circumstances of no balancing actions being taken by the Transporter.

The Transporter, on certain days, may take balancing action on the system with real costs accruing.

It is our view that incentives must remain to encourage shippers to maintain balanced gas flows. Notwithstanding this, the current balancing gas charge system is significantly less than cost reflective and should be reviewed. It is our view that full after day trading of imbalances should be permitted. Imbalance charges must relate to the real costs of physical balancing actions taken by the Transporter, rather than just individual shipper imbalance positions. Balancing with an IBP in the mechanism as opposed to from point to point would assist in this regard. The publication of an annual review of balancing actions and associated costs and risks etc should be undertaken by the Transporter. This could be the basis of a review by the Commission and the basis of agreement of annually revised imbalance charges.

Notwithstanding the above, as mentioned earlier, it is our view that the adequacy and timeliness of information flows from the electricity TSO to generators should be reviewed with a view to assisting generators in avoiding imbalance positions.

Whether current scheduling tolerance and charges reflect the costs imposed on the system by nomination divergences.

ESB has no particular views on these charges, as they have not been applied to date.

Whether BGE, as a Transporter, should authorise overruns when there is capacity available, and the appropriate charge for authorised overruns.

Due to the point to point nature of capacity allocations, administrative overruns occur that give rise to penalties. In some cases the gas system may have experienced a physical overrun, in others, it might not. This is an issue that the Commission should examine in its review of the Code of Operations.

Also, it is accepted that where physical capacity overruns arise, that a system of charges must be in place to deter such activity and protect the integrity and security of gas supply. However, current overrun charges are penal in that they can be ***up to 730 times the implied daily capacity charge***. It is our view that these charges are reviewed as part of the review of the code of operations.

In order to meet electricity demand, unexpected changes to generation dispatch from the electricity TSO can give rise to the need to run plant at short notice for which no firm gas capacity is in place. Though within day gas capacity transfers can be made administratively from within booked firm capacity held by a generator, or can be sourced from others with unused booked capacity, these become more difficult as the day progresses. There are no guarantees that they can be enabled in time, exposing the generator to potentially massive capacity overrun charges. The original intent of capacity overrun penalties was to ensure that shippers booked adequate capacity for their plants and did not seek to get a 'free ride' on the system.

Again it is our view that the adequacy and timeliness of information flows from the electricity TSO to generators should be reviewed with a view to assisting generators in avoiding capacity overruns.

Whether storage facilities should be open access facilities.

It is our view that storage facilities should be open access.

Whether the Transporter should be allowed to undertake licensed storage activities.

ESB has no views at present on the Transporter being allowed to undertake licensed storage. However, terms should be regulated and available to all market participants on an equal basis.

The Code of Operation's current requirement regarding all line-pack passing into the possession of the Transporter.

ESB is not familiar with all of the details as to how line-pack is currently used, the characteristics of the system in this regard and the feasibility of passing possession of some line-pack to the market. The existence of line pack allows the Transporter to operate the system with maximum flexibility which is beneficial to all users. Carving out line pack would probably be unnecessarily complicated in the Irish System. Even in UK this issue remains up for debate.

Notwithstanding the above, it appears to us that there is no pressing case to change the current line-pack ownership arrangements. The Irish gas system is relatively small and a number of large users represent very significant proportions of demand by comparison with the UK market for example. It is our view that for the Irish Market, any potential market benefits in releasing some of this capacity to the market could be insignificant by comparison with the reduced system security that might result.

The circumstances in which a competitive process for granting pipeline consents should be held; and

The criteria which should be used in that competitive process

ESB has no particular views on the questions raised. Our main concern would be that a competitive process is used. In addition, all new pipelines added to the existing transportation system by whatever party result in a *seamless* gas transportation system. The operational and economic provisions of different codes of operation must be identical so that from the shipper's perspective, the Gas Transportation system can be treated as a whole and seamless

entity. It would be unreasonable to have multiple balancing requirements on a system as small as Ireland's.

The Commission's intention to have model clauses, etc. for TPA arrangements

The Commission's intention to set out in some detail the framework for determining terms and conditions for those requiring access to a licensed operators network.

ESB is generally in favour of the Commission's intentions.

Whether the gas licence should be the same, or similar, duration as electricity licences (30 years minimum initial period, indefinite duration thereafter subject to minimum 15 years notice period).

From a generator's perspective, a reasonable approach would appear to be to set gas licences at a similar duration as electricity licences.

The broad outline of licence content bearing in mind the specific consultation on licences that is to follow.

ESB has no particular views at this juncture.

Whether the ring-fencing arrangements and accompanying compliance regime proposed for integrated natural gas undertakings including BGE are likely to ensure adequate separation between its transportation and supply/shipping businesses.

ESB has no particular views at this juncture.

The steps to be taken in the review of transportation charges

Ireland, because of its location, has transportation charges that are at the higher end by international comparisons. It is important that the Commission endeavours to ensure that transportation charges do not unnecessarily increase gas prices to users.

It is important that as Corrib, and other future entry points, come on stream, that transportation charges are set to ensure that the final market price of gas delivered to consumers is minimised. It is our view now, in view of the impact of the current Tariff mechanism, that ***a universal postalised*** system of charges would be the most appropriate in this regard.

Whether a Uniform System of Accounts using Regulatory Accounting Guidelines should be adopted.

ESB has no particular views at this juncture.

The issues to be covered by the technical guidelines for consent

Whether the Transporter should be allowed to recover the costs of action beyond the meter from the customer concerned.

ESB has no particular views at this juncture.