

CONSULTATION ON NATURAL GAS POLICY
FRAMEWORK

COMMISSION FOR ENERGY REGULATION
IRELAND

SUBMISSION

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1. Introduction

Ramco is the operator of the Seven Heads gas field currently being prepared for development. The current plans are for the field to be developed as a subsea satellite of the Kinsale Head gas field. First gas from the field is expected around July 2003.

The Seven Heads field will be the first new indigenous field to be developed in Ireland outside the Kinsale Head area. Ramco is currently involved in gas sales negotiations for its share of Seven Heads gas.

Ireland currently imports most of its gas from the UK. The Seven Heads field will allow imports to be reduced. The Seven Heads field will be the first field developed in Ireland by a producer other than Marathon, the owner of the Kinsale Head facilities.

The development will apply well-known subsea technology already used in the Kinsale Head area. The field will be operated through the Kinsale Head platform and pipeline system and will be landed at the Inch terminal.

Ramco has been a participant in the Code of Operations panel and welcomes the opportunity to put its view on Natural Gas Policy Framework to the Commission for Energy Regulation.

Ramco would like to emphasise that some of the matters discussed require urgent resolution in the context of Seven Heads gas being planned to start in around twelve month's time.

Ramco has followed the format of the Consultation Document in preparing its response and has confined its comments in the main to the questions raised by the Commission. Ramco understand that the Commission is undertaking a review of the Code of Operation although we are unaware of the timetable for this.

2. Gas Transportation Services

2.1 Separation of BGE's Transportation

As a gas producer rather than a gas shipper, Ramco does not have a particular view on whether BGE Transportation should be separated from the rest of BGE. We believe, however, if the current structure is maintained (whereby there are separate business units within a single corporate structure) BGE should be required to publish separate accounts for its transportation unit.

There is already a requirement under Article 13 of the European Gas Directive for integrated gas undertakings to provide separate internal accounts. Ramco believes that it would be helpful if BGE agreed to publish these internal accounts.

2.2 Basis for Access to Transmission System

The Consultation Paper provides a useful summary of the differences between common carriage and contract carriage. However what it does not cover is practically how any change could be made from the existing system which is based on common carriage. Indeed as it is clear that the main expansion of the system is underway on this basis, the purpose of this debate is uncertain.

An important point covered by the Consultation Paper is the issue of the installation of excess capacity and the question about whether this should be allowed by a regulator. This applies in particular to the second Interconnector, the case for which appears to rest on supply and demand forecasts that do not have universal support within the Irish gas industry.

As the Consultation Paper suggests, this type of investment in the UK could have been exposed to the very real risks that the Regulator would have disallowed them. The implication of the Consultation Paper is that the Commission for Energy Regulation will have to approve this investment retrospectively.

It would be helpful to have from the Commission its view on the question of the second Interconnector and its approval or otherwise under a regulatory asset base.

2.3 Capacity Booking

The Consultation Paper notes that the Irish gas market is “a relatively small market, in terms both of the ultimate volume and number of players¹”. This being the case there needs to be a flexible capacity booking regime as a large and liquid secondary capacity market is somewhat unlikely.

¹ Consultation Paper, p.14

The exact details of capacity booking do not appear in the Code of Operations and Ramco understands that they are based on a requirement to book twelve month's capacity to start on the first day of a Quarter (1 October, 1 January, April or 1 July).

The issue of being able to book capacity on less than a 12 month's basis is a debate for the future. However Ramco notes in passing that a number of EU Member States do allow this albeit on a seasonal pricing basis. Leaving this topic aside we do not see any reason other than purely administrative convenience why booking should not be allowed at the start of any month.

The start date of the Seven Heads field is currently under consideration. However a requirement for booking capacity on a quarter date appear to us to be unreasonable as the field start date may well not be on a quarter day. We therefore request the Commission as a matter of urgency to require BGE to amend its rules and allow more a more flexible capacity booking regime.

We also note that the Code of Operations states² under Clause 5.8.3 that "all capacity relating to Natural Gas entering the Transportation Systems at the Inch Entry Point as at the date of implementation of the Code has been reserved for BGE (Trading) as a result of pre-existing legal arrangements". Although we have been assured by BGE (Trading) that capacity will be available for Seven Heads gas we consider that these arrangements do need to be resolved on rapid basis.

2.4 Shrinkage

The Consultation Paper suggests that there are two alternative ways for handling shrinkage gas:

Option 1 – the transporter remains responsible

Option 2 – the shipper is responsible

The Consultation paper suggests that in "most other liberalised jurisdictions, option 2 has been adopted".³ We are not sure that this is correct and would be interested to know the basis for the statement. In the case of the UK this is definitely not true. In the UK system Ofgem carried out⁴ an examination of all aspects of Transco's operating and capital expenditure. In the most recent review Ofgem reduced the allowance assumed by Transco for leakage of gas in the distribution system an important component of overall system shrinkage.

Ramco believes therefore that the current system whereby BGE acquires the shrinkage gas should continue and that it is up to the Commission to regulate the volume and costs of this gas.

² Code of Operations, p.44

³ Ibid, p.20

⁴ Transco Price Control Review 2002-2007, September 2001, p.22

3. Market Trading

3.1 Spot Trading

The Commission states that a “formal market should not be established and that its development should be left to the private sector.”⁵ Ramco agrees with this and supports this view.

However price signals and transparency are useful in a developing market. There are a number of other mechanisms that the Commission should consider.

End user prices are a useful indication of spot gas prices particularly for large users who buy gas on the spot market. Ireland is required to provide this information to the European Commission on a regular basis but does not publish it itself. Moreover we understand that the information on prices is supplied directly to the European Commission by BGE. If that is correct, the data supplied would appear invalid as a number of large users are not supplied by BGE.

We recommend that the Commission investigate and report on the situation regarding the collection and publishing of end user prices in Ireland.

Ramco also notes that the prices charged by BGE to large end users are not transparent and are based on individual negotiation. As the dominant player this could allow BGE to practice discriminatory pricing. Ramco therefore proposes that BGE should be required by the Commission to prepare public price schedules for all its customers until such time as competition is fully established.

3.2 Capacity Trading

We have already noted the lack of flexibility regarding capacity booking. If there was an active and visible capacity trading market this might be less important.

Ramco encourages the Commission to develop the capacity trading system whilst at the same time making the capacity booking system more flexible. In particular we would like to see the availability of spare capacity being made visible and for traded prices to be provided.

⁵ Ibid, p.22

4. System Operation

4.1 Balancing Period

Ireland currently operates under a daily gas balancing mechanism. Since there is only a small number of large eligible customers this is currently feasible. In the UK the move from monthly balancing to daily balancing was only achieved by introducing dataloggers for all large customers.

The opening of the market in Ireland to users of 2 million m³ or more is welcome but it is questionable whether even daily balancing can operate without increased metering information. The suggestion of a move to anything less than daily balancing seems therefore inappropriate.

4.2 Balancing Methodology

The system used in Ireland consists of a combination between an entry/exit system and a point to point system. The tensions between these two approaches are probably the single most important failing of the current pricing and regulatory system.

The methodology used for balancing should primarily be related to the physical structure and use of the system. The Consultation Paper appears to be confused in its understanding of the drivers here. The statement that “entry/exit balancing tends to be associated with more complex systems”⁶ appears with no proof.

Ramco believes that the current system based on point to point should be changed to a full entry/exit system. This is ideally suited to the situation in Ireland which is becoming based on a ring main transmission system. This type of system leads to the conclusion that gas can enter into any part of the ring main and be delivered to the end user wherever they are.

Notwithstanding having multiple entry points there are significant different cost structures at the various entry points. Charges at individual entry points should continue to reflect the costs at that particular entry point.

We have noted above our preference to move away from the point to point system which is inappropriate for a ring main transmission system. Nevertheless if the current system is maintained for a short period prior to changing to a fully functioning entry/exit capacity system there is one feature of the point to point that requires attention. This is the question of back-haul.

In a point to point system a transporter is paid to move gas in one direction. A requirement to move gas in the opposite direction is in effect a saving for the transporter as it just moves less gas. In the event that there is an excess of gas in Ireland following both the start up of Seven Heads and Corrib there is the possibility of gas being moved to the UK through the Interconnector. If this

⁶ Ibid, p.26

was the case Ramco would expect to see BGE offering a lower back haul rate for the use of the Interconnector/s.

There is one other point that Ramco would like to raise regarding balancing. Under the Code of Operations⁷ there is a period of commissioning allowed for new Exit Points which involves the Shipper being excused Imbalance Charges for a period of time (now being discussed to increase from the current three months).

Ramco believes that this same procedure should apply to new fields being brought into production which may face similar issues regarding commissioning.

4.3 Balancing Market Mechanism

The Consultation Paper suggests that a market mechanism should be considered as an alternative to BGE trading in gas. However it does not connect this with the development of a spot market. If there are insufficient players for a spot market, then it follows that there would be insufficient players for a balancing mechanism.

4.4 Imbalance Charges

The current way Imbalance charges are calculated is not transparent. In addition the Code of Operations defines the costs in relationship to a Transco mechanism that is no longer in operation.

Imbalance charges are important to an offshore producer as onshore customers might face them as a consequence of an offshore producer not meeting the buyer's nominations.

The current system defines the costs in terms of the Bord Gais Balancing Price and the prices on the flexibility mechanism in Great Britain. The Bord Gais Balancing Price is not published and the flexibility mechanism in Great Britain has been abolished and replaced by a market mechanism called the OCM.

Ramco believes that the situation is unsatisfactory and needs immediate resolution by the Commission. BGE should be required to publish their Balancing Price and provide on a daily basis the charges actually charged.

⁷ Clause 7.5.2

5. Storage

5.1 Storage Facilities

Ramco supports the Commission proposal that all storage facilities should be open access.

5.2 Line-Pack

Ramco supports the Commission view that there should be no change to the status of line-pack.

6. Regulation of Transmission and Distribution Charges

6.1 Proposed Timetable

Ramco supports the proposed programme which involves:

- ?? Transmission charges for gas year starting 1 October 2002 being based on the Ministerial directive
- ?? Distribution charges for gas year starting 1 October 2002 to be developed by the Commission
- ?? Review all charges in time for gas year starting 1 October 2003

6.2 BGE Information on Supply and Demand

Ramco is concerned at the quality of the supply and demand forecasting used in determining transportation pricing. There should be an improved process which involves parties other than BGE (but not excluding BGE) being involved in the process.

Ramco is surprised that data such as monthly consumption appears to be unavailable and believes that this type of information should be available in the ten year planning document that BGE is required to produce under the Code Of Operations.