



Commission for Energy Regulation
An Coimisiún um Rialáil Fuinnimh

Exit Reforms Moffat Arrangements Introduction

Keelin O'Brien

8th September 2006

Objectives of the Meeting

- Provide Background to NTS Exit Reforms and Impact on Players Downstream of Moffat
- Move to consensus on Moffat Options
- Introduction Exit Reforms Moffat Arrangements (ERMA) Project

- Sale of gas distribution networks in June 2005 created new interface
- Different user classes signal capacity requirements in different ways / to different timescales
- Authority concluded that development of “enduring” offtake arrangements necessary to protect the interests of customers

- Emphasis will be on user commitments
 - all NTS users are to provide signals to NG regarding their intended future use of the gas transmission network
 - such signals are to be made sufficiently far in advance of capacity requirements to allow NG to invest in the necessary system developments
 - these signals are to be backed by an appropriate financial commitment from users

Why Moffat is Unique

- Moffat is the entry point to three separate jurisdictions
- Moffat supports relatively new markets with high growth rates unlike UK mature markets
- Moffat is connected systems exit point with multiple shipper status and therefore more complex than other exit points
- Robust set of arrangements in place at Moffat underpinned by series of agreements governing and regulating flows
- CSEP arrangements different as UK shippers book exit capacity and benefits not available to Irish shippers

Impact of Exit Reforms Downstream of Moffat

- Threat to Security of Supply in both electricity and gas markets
- Creates Barriers to entry in Electricity & Gas markets
- Increases risk for shippers
- Imposes costs on shippers
- Severely restricts the effective operation of downstream systems

Proposed Solution

- Single Party Books NTS Exit Capacity for all parties on basis of Joint Capacity Statement
 - Option A - SP buys all Capacity & sells bundled product
 - Option B – SP reserves capacity & Guarantees payment for unbooked NTS exit Capacity
- Energy unchanged

- Summary of NTS Exit Reforms
- Moffat Arrangements
- Open Discussion Options A & B
- Introduction to Exit Reform Moffat Arrangements (ERMA) Project
- Questions & Answers
- Way Forward

NTS Exit Reforms

User commitment concept

NTS Users

- Signal capacity requirements consistent with investment lead times
- Financially commit to signalled requirements for minimum period

National Grid

- Invests to provide capacity in line with signals
- Price rationing of available capacity within investment lead times

Claimed benefits

- Replaces centralised capacity planning process
- Clear investment signals, reduced stranded assets
- Equitable rationing of constrained product

NTS Exit Reforms

Flat exit capacity

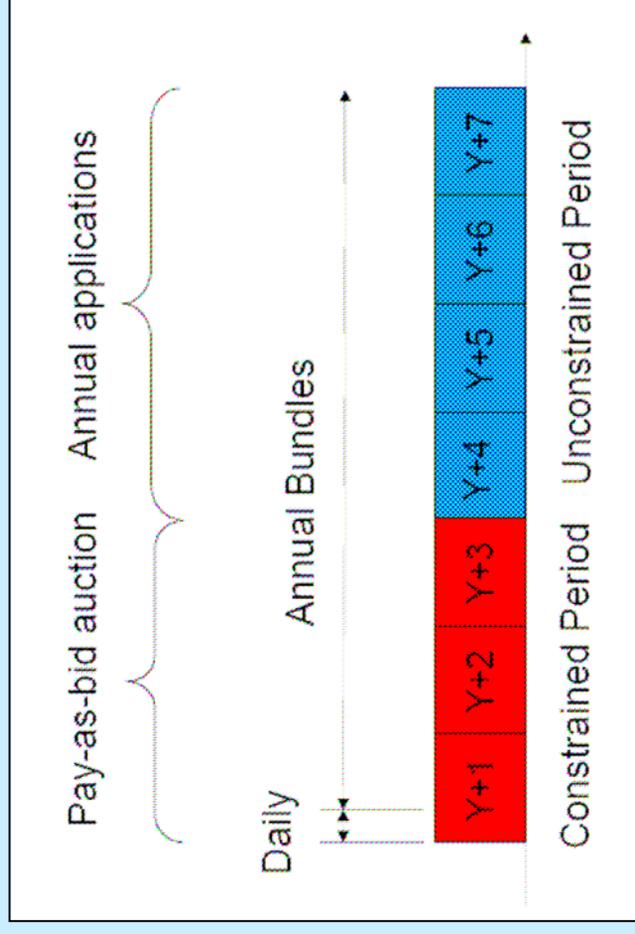
Right to offtake a volume of gas during the day at a constant hourly rate

Unconstrained period

- Ability to request any amount, including in excess of baseline
- Incremental capacity, 4 year commitment, commencing 3 years hence
- Prevailing rights, 1+ years notice of reduction
- Administered price

Constrained period

- Availability limited to unsold baseline
- Annual pay as bid auctions
- Daily pay as bid auctions, firm and interruptible
- Firm reserve prices set equal to administered price
- Very low interruptible reserve price



NTS Exit Reforms

Flat exit capacity

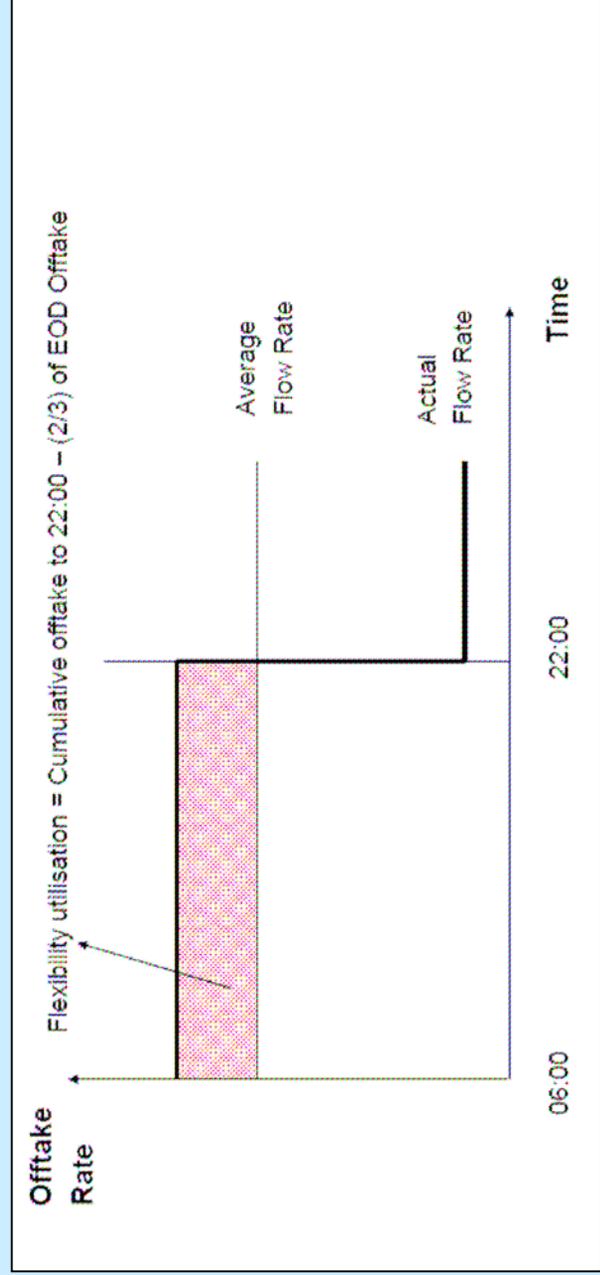
Key changes from existing exit arrangements

- Formalised ability to request and secure incremental capacity
- Financial commitment required to secure long term capacity
- Auctions for shorter term capacity
- Availability of interruptible capacity less certain

NTS Exit Reforms

Flexibility exit capacity

Right to offtake gas according to a profile that varies across the day

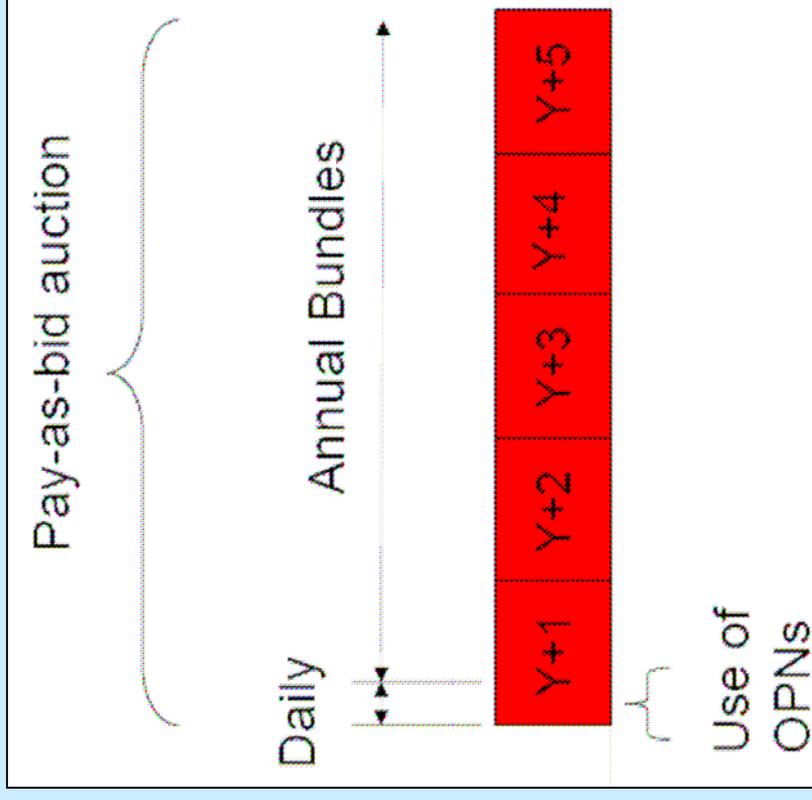


NTS Exit Reforms

Flexibility exit capacity

Features

- Fixed availability (22 mcm nationally), no incremental
- Zonal product, maximum area and zonal availability (Moffat zone 4.6 mcm)
- Annual pay as bid auctions
- Daily requests via OPNs
- Very low reserve prices
- No interruptible product
- Inter and intra zonal trading
- Overruns triggered on zonal basis



NTS Exit Reforms

Flexibility exit capacity

Key changes from existing exit arrangements

- Completely new concept (except for distribution networks)
- Involves within day measurement and allocation
- Flexibility requirement review required at Moffat

Moffat Arrangements

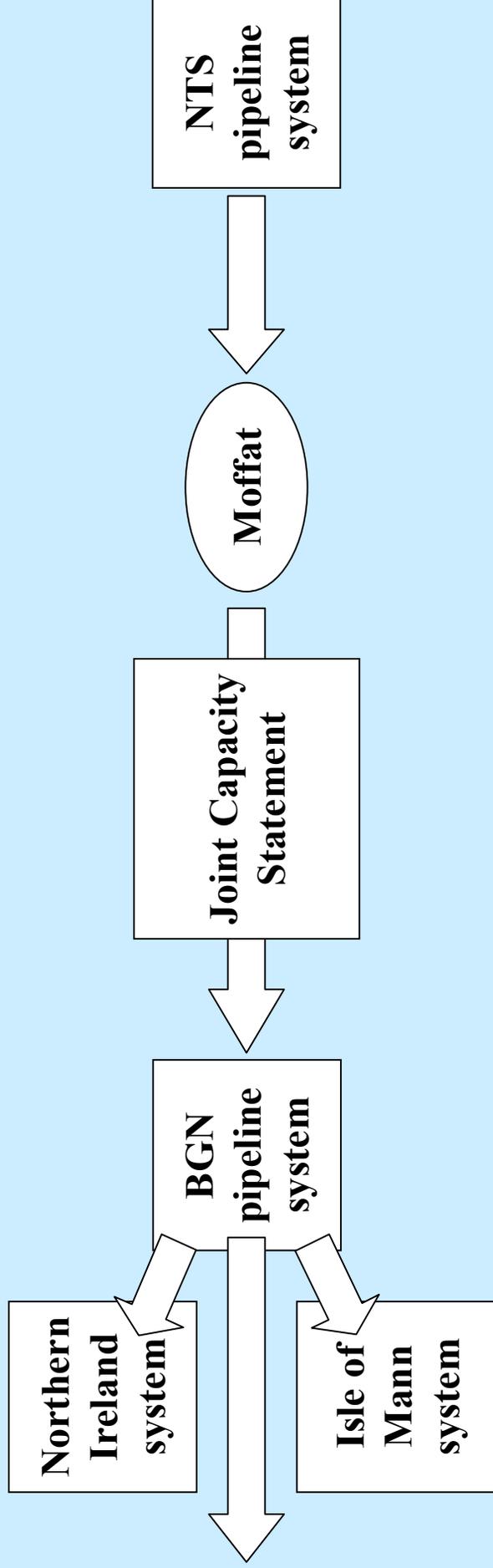
Security of supply

- Under basic model, individual NTS shippers book long term capacity and make associated financial commitments to National Grid subject to a Downstream ‘Ticket To Ride’
- Concern that aggregate long term capacity bookings will not mirror capacity requirements downstream of Moffat

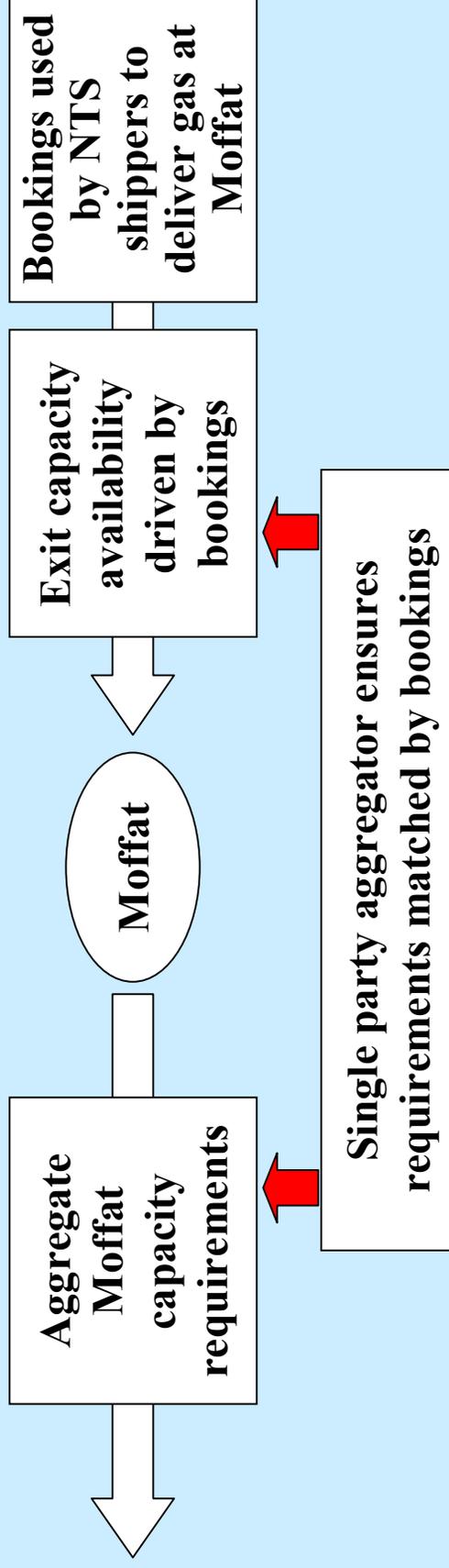
Determining Moffat capacity requirements

- Currently a separate CER Capacity Statement and OFREG Pressure Report
- Joint Capacity Statement process required to set out long term Flat and Flex capacity requirements

Moffat Arrangements



Implications for Moffat



Implications for Moffat

Single Party Aggregator

- Appointment by licence or contract
- Roles of SP, Irish shippers and NTS shippers
- Cost recovery mechanisms across multiple jurisdictions

Contractual consequences

- MAA and OPN agreements
- BGN Code
- Tariff decisions
- PTL Agreement

Moffat Solutions

Single Party (SP) Aggregator Options

Two options involving an SP have been considered. Both adhere to a number of basic principles:

- The SP role is restricted to ensuring there is exit capacity availability at Moffat commensurate with downstream requirements
- [This includes both flat and flexibility capacity]
- The SP does not participate in nomination or gas flow processes and does not receive gas allocations
- The costs of the SP in fulfilling its role are recovered via charges to shippers downstream of Moffat

Moffat Solutions

Option A overview

- The SP as Uniform Network Code User books long term Moffat capacity requirements, making a financial commitment to National Grid in the same way as other NTS shippers
- NTS shippers utilise exit capacity booked by the SP when delivering gas to Moffat
- The costs incurred by the SP in booking NTS exit capacity are recovered via charges to shippers downstream of Moffat

Key characteristics of a Option A

Single party responsible for NTS Exit Capacity bookings in respect of Interconnector (I/C) flows

Single party would :

- book required capacity:
 - long term: consistent with Joint Capacity Statement (Ireland (N&S), Isle of Man) & security of supply objectives
 - short term (annual, day ahead, within day) : to reflect subsequent changes
- pay National Grid NTS for
 - NTS exit capacity product(s) and associated capacity overruns
 - associated (TO) commodity charges
- be underwritten by CER

Shippers would:

- arrange for their counterparty Shippers to ‘book’ NTS Exit Capacity from the Single party **only**
- undertake traditional “shipping” activities
- be exposed to GB energy balancing exposures:
 - imbalance cashout
 - scheduling charges

WHO Would: Nominate against NTS Capacity?

HOW Would: The required NTS Shipper information be communicated to National Grid?

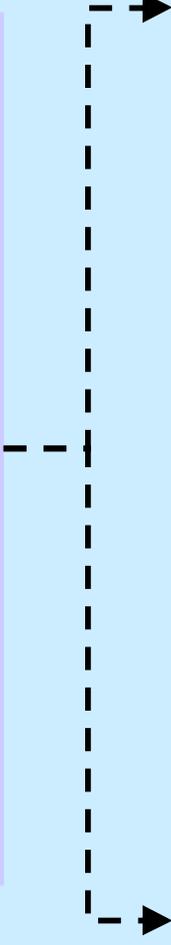
Moffat Solutions

Option B overview

- The SP reserves long term Moffat capacity under an ARCA agreement with National Grid, making a financial commitment to National Grid
- NTS shippers book and utilise exit capacity reserved by the SP when delivering gas to Moffat
- Bookings of reserved capacity by NTS shippers reduce the SP ARCA commitment
- Any residual ARCA costs incurred by the SP are recovered via charges to shippers downstream of Moffat

Key characteristics of a Option B

Single party responsible for securing NTS Exit Capacity in respect of Interconnector (I/C) flows



Single Party would:

- secure required capacity in the unconstrained period:
 - via a binding commercial arrangement
 - the amount secured would be available when NTS Shippers chose to book such Capacity on a long or short term basis
 - This booking would be subject to a ‘ticket to Ride’ from Shippers Downstream of Moffat.
- pay National Grid NTS
 - in the event that the quantity of Capacity secured by BGT was not fully booked by NTS Shippers, BGT would be liable for payment of the outstanding capacity booking fee
- be underwritten by CER

Shippers would:

- Arrange for an NTS Shipper to book their Capacity requirements on a long or short term basis from the quantity secured and reversed by BGT on a ‘ticket to ride’ basis.
- undertake traditional “shipping” activities
- In the event that all NTS Exit Capacity secured by BGT was booked by NTS Shippers and a requirement over and above this amount arose, arrange with NTS Shippers to contract for any such additional Capacity directly with National Grid where required
- NTS Shippers would:
 - Nominate against the booked NTS Capacity

Moffat Solutions

Issues associated with the Options

There are a number of common issues associated with these options. None is seen as insurmountable, but resolution will require time and effort to be devoted to development of detailed specification of the options

Recommend that the Option be chosen in the near future

Moffat Solutions

Flat capacity issues

- National Grid UNC rules must enable the SP to secure a fixed absolute level of capacity at Moffat. Some concerns with proposed NTS Exit Reform Business Rules
- Mechanism required whereby capacity secured by SP is made available in set quantities to individual NTS shippers for use in delivering gas to Moffat
- Interaction with capacity directly booked by NTS shippers needs to be explored
- Capacity overrun arrangements must provide appropriate gas flow disciplines
- Equitable cost recovery and targeting mechanisms required

Flexibility capacity issues

- Need means to establish and value aggregate Moffat requirements
- Need mechanisms to apportion nominated and actual within-day flows amongst NTS shippers at Moffat
- Otherwise, as per flat capacity issues



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Summary of Options A and B

Keelin O'Brien, CER

Option A

- **SP book** NTS exit capacity for all downstream of Moffat
- **SP pay** for **all** NTS exit capacity
- Downstream shippers booking entry capacity at Moffat are simultaneously given a matching level of NTS exit capacity, i.e. exit capacity is allocated based on entry capacity requirements
- NTS exit capacity and Moffat entry capacity up to the SP booked level of capacity will be priced as a bundled tariff
- NTS shippers nominate this capacity on a “ticket to ride” basis
- Shortfall of SP booked NTS exit capacity is paid for by all customers or may be sold back to NG (if NG demand exists) or onto other NTS shippers

Option B

- SP reserves NTS exit capacity for **all** shippers downstream of Moffat (this is not paid for until the end of the gas year)
- Current “ticket-to-ride” system will continue, whereby NTS shippers book NTS exit capacity from NG based on the level of entry capacity booked by a corresponding downstream shipper
- SP pays for NTS exit capacity not booked by NTS shipper, (i.e. up to the ARCA reserved capacity minus the capacity actually booked at Moffat)
- SP pays revenue shortfall
 - Overruns will be taken into account
 - Year end reconciliation will be required
 - National Grid systems will be audited by BGT

Comparing Options

Option A	Option B
<ul style="list-style-type: none"> •SP book NTS exit capacity •SP pay for NTS exit capacity •Moffat Entry and NTS Exit Capacity will be sold as a bundled product •Commercial incentives (via bundled price) to ensure shippers do not book outside of booked capacity 	<ul style="list-style-type: none"> •SP reserves exit capacity • SP pays for exit capacity shortfall •Entry and exit capacity will be sold separately on both sides of Moffat •Risk of under recovery due to lesser cost of interruptible capacity on NTS if shippers do not book reserved NTS exit capacity from SP

Comparing Options (2)

Option A	Option B
<ul style="list-style-type: none">•No matching required with bundled capacity•SP may sell any unused capacity to NTS shippers, NG or as interruptible products to downstream shippers•SP can book flow flex	<ul style="list-style-type: none">•Capacity bookings need to be matched on NTS side•Short or interruptible bookings need to be matched on NTS side•A separate system will be needed to accommodate the flow flexibility arrangements

Comparing Options (3)

Option A	Option B
<ul style="list-style-type: none"> •OVERRUNS calculated on aggregate figure •No end of year reconciliation required to determine NG payment •BGT systems will need development to accommodate changes •SP may need an exemption from DTI to be a shipper on NTS 	<ul style="list-style-type: none"> •OVERRUNS calculated on individual shipper basis – may be cases of double counting of overruns •Reconciliation of revenues at year end •Audit of NTS systems required •No exemption required

Main Differences of Options A and B

- SP has a firm NTS exit capacity booking in Option A and may sell it as different products to minimise level of capacity shortfall – thus reducing potential cost on consumers downstream of Moffat. Under Option B, SP has no right to sell exit capacity products
- Under Option B there is a possibility that Shippers may cease to book capacity with SP and instead book cheaper capacity with NG on the day. This will increase the level of the shortfall and the cost to the consumer downstream of Moffat.
- Option A may require an exemption from DTI for SP to become a shipper on NTS

Risks of Both Options

Option A	Option B
<ul style="list-style-type: none"> • May be anti-competitive in terms that it is establishing a monopolist shipper at Moffat Exit Point • Exemption required from DTI 	<ul style="list-style-type: none"> • Could incur double counting of capacity • Shippers may not book “reserved” NTS exit capacity and instead wait to see if NG offer a cheaper exit product on the day • Risk of higher cost to consumer



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Exit Reform Moffat Arrangements Project Project Structure and Workstream

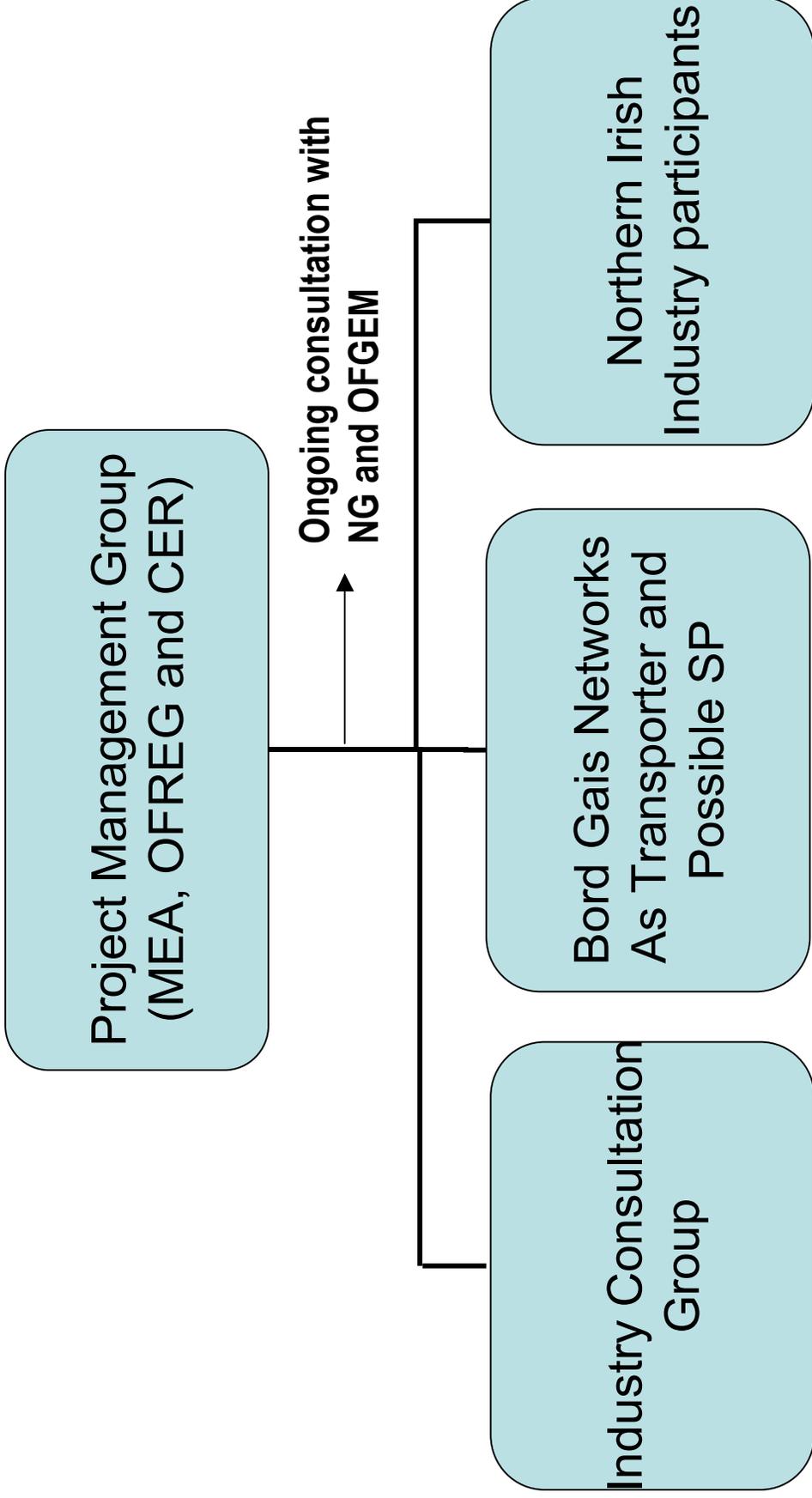
Exit Reform Moffat Arrangements Project

- Exit Reform Moffat Arrangements (ERMA) Project
- Legal, technical and project management support
- Three jurisdictions – All-Island type project management
- Project cost
 - consultancy costs
 - unknown BGT system costs

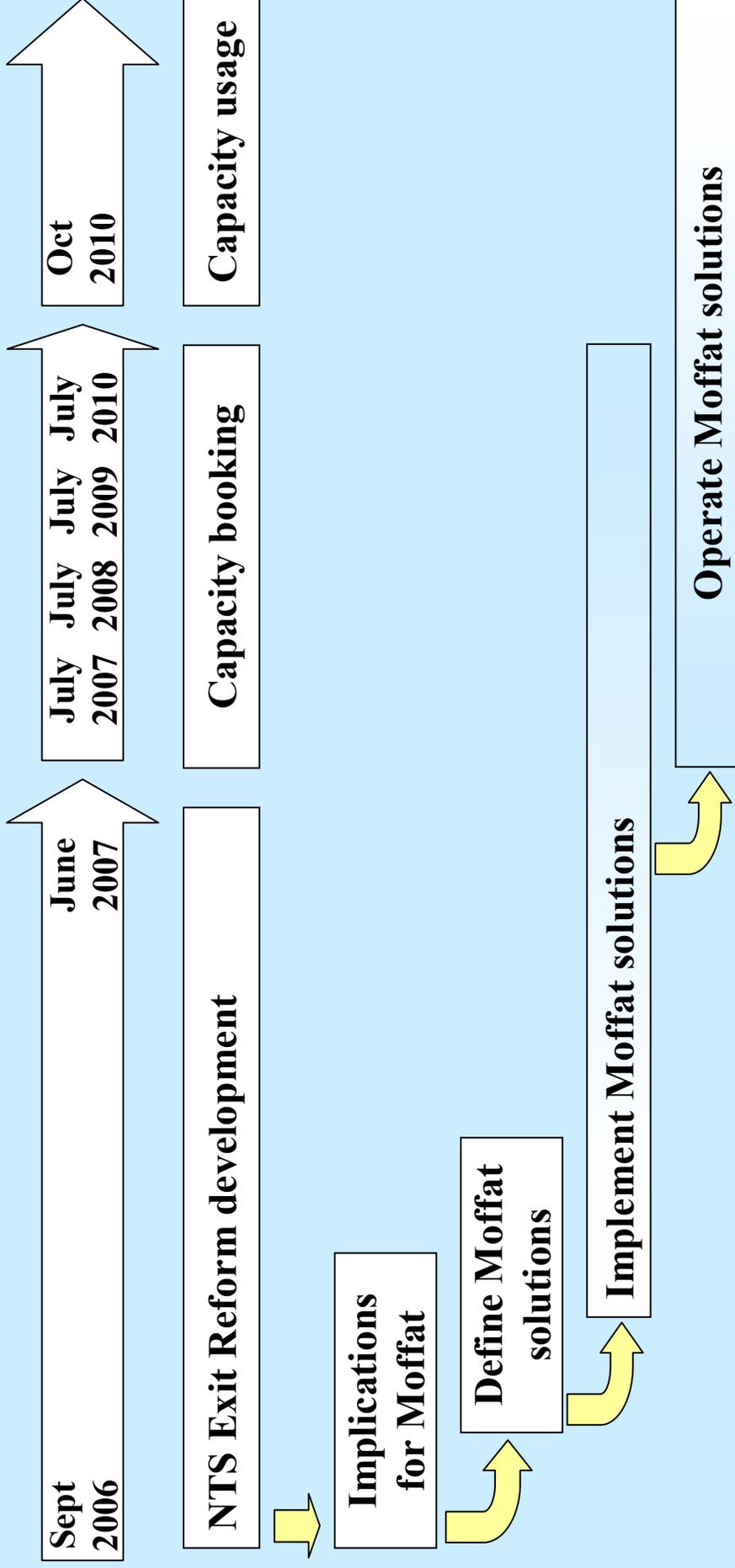
	Workstream	Activity	Lead
1.	Regulatory Arrangements	Legal Structure Determine Capacity	CER OFREG
2.	Moffat Interface Arrangements	Exemption Process Monitor UK Code Mod	BGT
3.	Capacity Booker	Licencing/Legal Issues	BGT
4.	Code Mods	Develop/Agree Rules	BGT/CER
5.	System Development	BGT and Moffat Agent IT systems	BGT

- **Formal start-up of ERMA project**
 - monthly meetings on rules, licencing, regulatory requirements, legal and system requirements
 - Establishment of forum for MEA, OFREG and CER to discuss regulatory requirements
 - Individual RAs to examine national licences and Code Mods
 - Industry meetings to examine rules and Code Mods
 - Project Management meetings involving OFGEM and both Transporters to facilitate progress of process

Project Management Governance Structure



Project Approach (3 Phases)



Project Approach

Work areas

Development of GB arrangements

- General UNC modification(s)
- National Grid license changes
- Specific Moffat / Interconnector UNC mods
- SP approvals with GB, e.g. exemption
- Specific Moffat Arrangements SP with NG, e.g. NExA, ARCA

Downstream regulators/ authorities

- Cross jurisdiction regulators' agreement (CER, Ofreg, MEA)
- Capacity requirements determination (flat and flexibility)
- Appointment of SP to secure Moffat capacity from July 2007
- Make licence amendments
- Obtain necessary legal approvals
- Tariff arrangements

Project Approach

Work areas (continued)

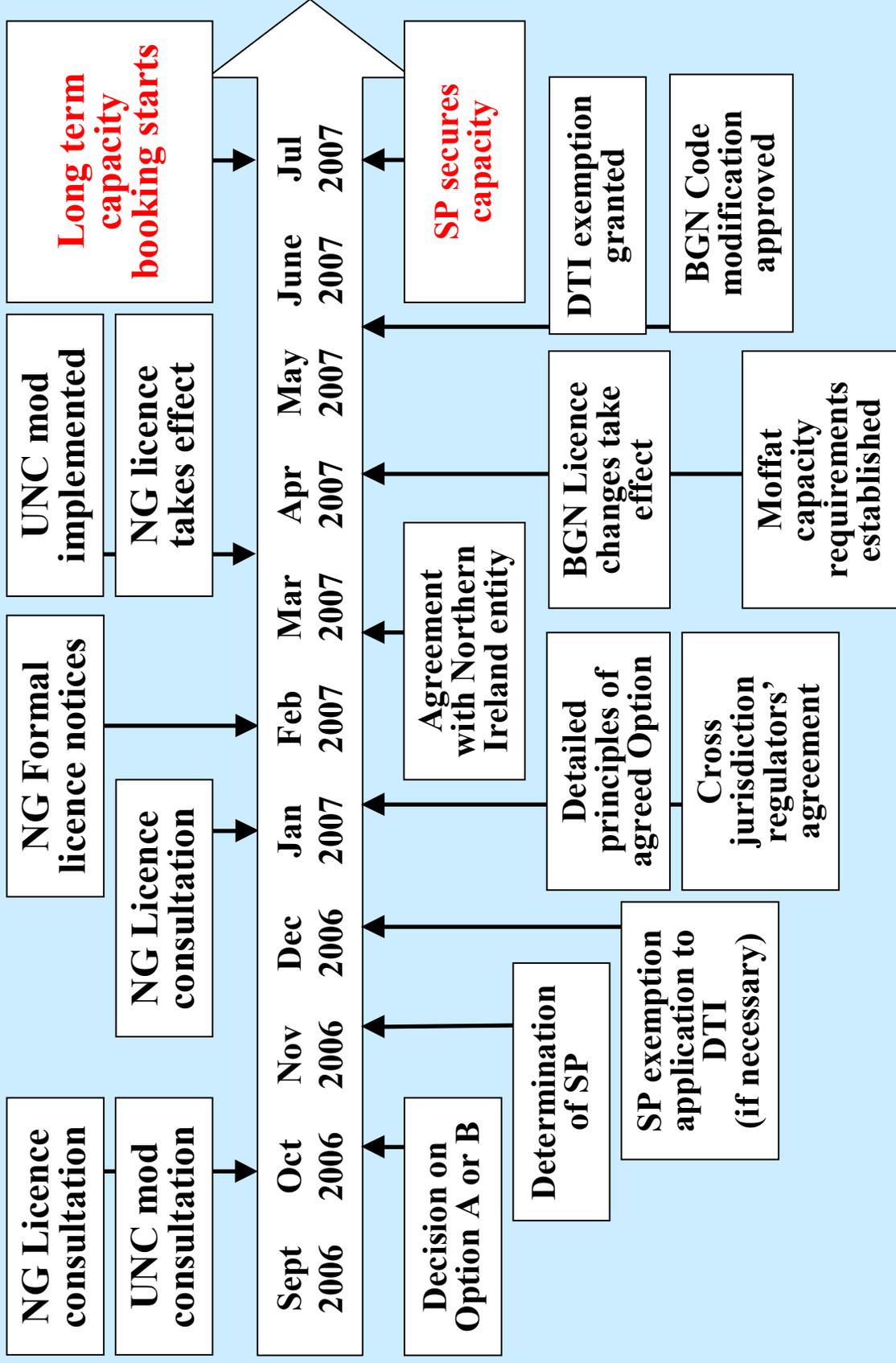
SP

- License changes (if BGN is SP, otherwise additional contracts)
- SP rules and arrangements, Phase I (including cost recovery)
- SP rights in GB
- Agreement with Northern Ireland Entity
- Legacy Transportation Contracts
- Code of Operations Phase I modification
- MAA and OPN agreements

Industry Workstream

- Discussion consultation on proposals
- Irish and NTS shippers to participate

Draft Key milestones	
Decision on Option A or B	Oct 2006
Determination of SP	Nov 2006
SP exemption application to DTI (if necessary)	Dec 2006
Cross jurisdiction regulators' agreement	Jan 2007
Full principles of agreed Option	Jan 2007
Agreement with Northern Ireland Entity	Mar 2007
Full definition of agreed Option	Apr 2007
Moffat capacity requirements established	Apr 2007
Licence changes take effect	Apr 2007
Moffat UNC Mods to clarify SP rights and process	Apr 2007
Phase I BGN Code Modification Approval	May 2007
DTI exemption granted	May 2007
SP secures capacity	July 2007



Project Approach

Risks

- Delays in finalising GB Exit Reform details, but without slippage of July start date (e.g. UNC mod process extended, or appeal to Competition Commission)
- Late changes to GB Exit Reform details which are incompatible with agreed Moffat Option
- DTI unwilling to consider exemption until SP formally appointed
- Delays in finalising regulators' agreement
- Delays in determination and/ or appointment of SP
- Delays in deciding on Moffat Option or in defining detailed business rules for Option
- Delays in licence amendment process

Exit Reforms Moffat Arrangements Conclusion

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8th September 2006

- Put in place Formal Project Management Structure
- Consult on Options
- Consult on SP Appointment
- Review Options for Flow Flex
- Progress Governance Workstream
 - CER/OFREG/MEA
 - Legal Basis
 - Joint Capacity Statement