



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

## Tariffing Arrangements on the South-North Gas Pipeline and Compliance with EU Law

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## 1.0 Introduction

In June 2009 the EU Commission issued formal notices of infringement to Ireland and the UK for non-compliance with EU Regulation 1775/2005 in respect of the South-North Pipeline, a gas transmission pipeline that spans both the Irish and Northern Irish jurisdictions. On the 8<sup>th</sup> of March, the CER published a Consultation Paper (CER/12/023)<sup>1</sup> which highlighted the issues facing Ireland in relation to meeting compliance on this pipeline as a matter of priority. The Paper also noted that there are a number of matters concerning gas tariffs to be addressed.

This Information Paper deals with a number of areas concerning the tariffs regulated by the CER for the use of the South-North Pipeline (SNP). This Paper essentially summarises the key tariffing issues, as the CER sees them, with regard to the SNP which are to be addressed in order to ensure compliance with Regulation 1775/2005. Follow-up CER papers will examine these areas in more detail. The issues raised in this Information Paper interact with those detailed in CER/12/023.

There will also be tariffs relating to the SNP that will be a matter for the Northern Ireland Authority for Utility Regulation (NIAUR or UR). These are not addressed in this Paper.

### **1.1 Background Information**

The SNP is a gas transmission pipeline, completed in 2006, that spans both Ireland and Northern Ireland. It is financially underwritten by gas customers in Northern Ireland and is part of the Northern Ireland transmission system.

The SNP has yet to be made commercially operational for off-takes south of the border. Once the pipeline is made commercially operational it will facilitate physical gas flows from the NTS system at the Moffat Interconnection Point, along the 2<sup>nd</sup> subsea Interconnector ('IC2') into the SNP for delivery to Northern Ireland and to off-takes on the SNP in Ireland.

In February 2007 the CER granted a licence to BGE (UK) Limited relating to the section of the SNP within Ireland. NIAUR has also issued a licence to BGE (UK) regarding the section of the SNP within Northern Ireland. BGE (UK), as the Licence holder, is obliged to offer third party access in accordance with its CER Licence. NIAUR recognise this and have agreed to such connections subject to regulatory approval of the commercial terms.

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<sup>1</sup> [CER Consultation Paper, South-North Gas Pipeline and Compliance with EU Law, CER/12/023.](#)

## **1.2 Legislative Requirements**

EU Regulation 1775/2005<sup>2</sup>, on conditions for access to the natural gas transmission networks, aims at setting non-discriminatory rules for access conditions to natural gas transmission systems. It includes provisions regarding third party access services, principles of capacity allocation mechanisms, congestion management procedures and transparency requirements with which Member States must comply.

Article 3 of Regulation 1775/2005 provides that network tariffs shall be transparent, take into account the need for system integrity and must reflect actual costs incurred. They must also be applied in a non-discriminatory manner, while at the same time avoiding cross-subsidies between network users and distortions to trade across borders.<sup>3</sup>

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<sup>2</sup> While the infringement notice relates to obligations under EU Regulation 1775/2005, it should be noted that the requirements of this Regulation have been repealed by EU Regulation 715/2009. The CER notes that future regulatory arrangements on the SNP must be consistent with Regulation 715/2009.

<sup>3</sup> Further legislative requirements and compliance issues are detailed in section 3 of the Consultation Paper CER/12/023.

## 2.0 Tariffing Arrangements on the SNP

This section addresses issues that arise in the context of south to north flows. Sections 2.1 and 2.2 address the transmission entry and exit tariffs applicable to shippers seeking to move gas from the Gaslink System to the Northern Ireland system through the SNP. Section 2.3 provides high level information on the calculation of charges to adequately reimburse the owners of the SNP where parties connect to the pipeline in Ireland. Section 2.4 addresses the issue of tariffs to be paid by end-users in Ireland (on the Gaslink system) who are fully or partly supplied through the SNP. This particular Information Paper does not consider issues that may arise in the context of flows from Northern Ireland to Ireland (north to south) which are to be addressed at a later date (see point 2.5).

### **2.1: IC Entry Tariff**

Clearly, for the SNP to be used for the transportation of gas from south to north, it will be necessary for gas to enter the pipeline. As the SNP is supplied from IC2 only (in the context of south to north flows), Interconnector (IC) entry capacity will be required to be held by shippers in order to move gas into the SNP. It is anticipated that the standard approved IC entry tariff will apply in this case.

### **2.2: Tariff for Exit from the Gaslink System**<sup>4</sup>

In relation to gas exiting the Gaslink system in order to enter the Northern Ireland transmission system through the SNP, it is anticipated that an exit tariff would apply. High level arrangements on a TSO to TSO basis have been in place for some time to facilitate south to north flows in the event of a gas emergency in Northern Ireland. More recently TSO to TSO arrangements have been re-examined in order to facilitate south to north flows given certain operational conditions arising in Northern Ireland. Notwithstanding this, these TSO to TSO arrangements will undergo further development and clarification given the new market facing arrangements which are now being progressed.

The application of such a tariff raises the issue of remunerating the security of supply benefits accruing to Northern Ireland by virtue of the fact that the SNP is fed, in turn, by IC2. The issue of cost allocation with regard to these benefits was the subject of much discussion between the CER and NIAUR in 2011. In light of these discussions, the CER considers that tariffs for exit from the Gaslink system to Northern Ireland should reflect a fair proportion of the costs associated with ensuring security of supply benefits of the BGE subsea Interconnectors. That said, the CER does not propose to apply this as an ongoing use of system charge. The level and format of this tariff will be consulted on by the CER in early May this year.

CER propose that all gas exiting the Gaslink system, whether flowing under normal operating conditions or during an emergency, will be allocated to shippers and accordingly will be subject to the tariffs being discussed in this paper.

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<sup>4</sup> In this context, we mean the "Gaslink System" to describe the Irish gas network operated by Gaslink. Thus, if the SNP is operated by another party under a separate code of operations to the Gaslink Code, then gas would exit the Gaslink System in order to enter the SNP. This concept could interact with issue 2.4 below.

### **2.3: Remuneration for use of the SNP in Ireland<sup>5</sup>**

Where any party connects to the SNP in Ireland, it is considered appropriate that the owner of the SNP be properly remunerated via capacity and commodity tariffs. This aspect of the SNP was addressed in CER's 2007 licence to BGE(UK) for operating the pipeline in Ireland which recognised the legitimate interests of both Regulators (CER and UR) in the outcome. The CER intend to consult on this matter following discussion with UR.

### **2.4: Charges for end-users in Ireland who are fully supplied or part supplied through the SNP**

If the TSO in Ireland uses a connection to SNP for a new Irish connection or to provide additional capacity to the Irish network, it is anticipated that an inter-TSO arrangement will be in place to make appropriate payments to the SNP TSO. Customers of the Irish TSO who are either directly or indirectly connected to the SNP will be indifferent to this fact. In other words, these customers will see the same exit charges as all other exit customers in Ireland.

The essence of points 2.3 and 2.4 above is that customers in Ireland connected to the Gaslink system, as well as their shippers, will be indifferent to the fact that some or all of their supplies will come via the SNP whilst also ensuring that the SNP owner will be fairly remunerated for use of the pipeline.

### **2.5 Northern Ireland to Ireland Flows**

The issue of tariffing arrangements for flows from Northern Ireland to Ireland on the SNP will be considered at a later date. This is related to the question as to whether the relevant point on the SNP will be a Physical Entry Point into Ireland or a Virtual Entry Point into Ireland which is the subject of a separate consultation.

## **3.0 Next Steps**

The CER intends to produce a Consultation Paper in early May this year regarding the tariffing arrangements on the SNP detailed in this paper. The CER intends to engage further with BGE (UK) and NIAUR as part of this process.

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<sup>5</sup> In this context, "Remuneration for use of the SNP in Ireland" refers to tariffs for capacity and commodity that will be applied where a party books capacity on the SNP in Ireland, and/or where a party transports gas on the SNP for use in Ireland.