

Gurpal Ghotra
Premier Transmission Limited
First Floor
The Arena Building
85 Ormeau Road
Belfast
BT7 1SH

13 September 2021

Dear Gurpal,

Re: Transportation Agreement Approval Request

Thank you for submitting, on 13 August 2021, your request for regulatory approval to the entering into of the New Transportation Agreement (TA), complemented by the submission of an updated version of the New TA on 7 September 2021. We note that the updated version contains some minor changes compared to the previous one, which have been made in response to queries that had arisen as part of the regulatory review of the New TA.

We also note that in your submission requesting approval of the New TA, you had advised that you are in discussions on the terms of the Operating Provisions set out in Schedule 2 of the New TA and expect to provide a replacement of this Schedule in due course. You had asked us to consider whether a prospective approval of Schedule 2 would be possible at this stage.

Background

The existing Transportation Agreement was entered into on 21 August 1996. It permits Premier Transmission Limited (PTL) to use certain capacity in the portion of the Interconnector 1 pipeline from Moffat to Twynholm which is owned and operated by GNI (UK) Limited (GNI (UK)). Together with the capacity in the Scotland-Northern Ireland Pipeline (owned and operated by PTL), PTL can make this capacity available as a seamless service to NI (Northern Ireland) shippers from Moffat to exit points on the PTL network, thereby directly linking the GB (Great Britain) and NI (Northern Ireland) gas markets and avoiding pancaking of entry and exit charges.

The existing term of the Transportation Agreement is due to expire on 30 September 2021, with an option for extension on fair commercial terms. On this basis, PTL and GNI (UK) now propose to enter into the New TA. If approved and executed prior to 1 October 2021, the New TA will extend, amend and restate the existing one.

Assessment of New TA

We have assessed the New TA to decide whether approving it would be consistent with our principal objective and general duties in gas, and so in the best interest of consumers of gas. In so doing, we have considered:

- a. The counterfactual if there is no TA
- b. The cost impact of the New TA for NI consumers
- c. Whether the new TA is likely to meet NI's reasonable demands for gas during its term with respect to capacity and pressure
- d. Future proofing – option to extend

Counterfactual – No TA

In the absence of the TA, NI would no longer have direct access to the GB gas market. NI Shippers wanting to bring gas from GB into NI might then have to pay pancaked entry and exit charges. This would entail a significant increase in cost for bringing gas into Northern Ireland which for domestic and IC gas customers would present an additional challenge in an already difficult economic situation. The cost increase would also impact on the costs for gas-fired power stations and thus potentially for electricity in NI and in the Single Electricity Market (SEM). Finally, it could impact negatively on the economic attractiveness of natural gas compared to alternative fuels that are even less environmentally friendly.

Cost Impact of New TA for NI Consumers

The potential costs of the extended TA compare favourably with the average annual costs of the current TA. The projected costs are considered to be in the interest of NI consumers.

Capacity and Pressure

Consideration has been given as to whether PTL's capacity and pressure rights will be suitable to meet NI demand during the term of the agreement, bearing in mind that bringing gas into Northern Ireland through the Interconnector 2 in combination with the South-North Pipeline (SNP) remains an option.

The capacity reservation for PTL's own use under the New TA is of 8.08 million standard cubic metres per day at 56 bar, consistent with that of the current TA. In light of the ongoing development of the energy strategy for NI, the demand for natural gas up to 2036 cannot be

reliably predicted at this stage. However, the latest version of the NI Gas Capacity Statement¹, which aims to provide an assessment of the ability of the NI transmission network to meet forecast demands on the network over a ten-year period, takes account of these constraints. It found that for the next ten years the NI Network has sufficient present capacity across the forecast period for future peak demand and suitable capacity for a level of additional load growth. We also note the options to secure additional capacity on fair commercial terms under the 1993 and 2004 treaties between the United Kingdom (UK) and Irish Governments. We are conscious that these terms would need to be agreed between PTL and GNI (UK) if such additional capacity was to be secured.

Under the New TA PTL's right to request and receive Enhanced Pressure at Twynholm will be subject to a Maximum Pressure Cap. We understand that the cap is not expected to be a significant constraint if the network in Scotland is operated in a way a reasonable and prudent operator would do and that, should the cap become restrictive, gas could for example be brought into NI through the SNP.

Considering the above, overall, the arrangements for capacity reservation and pressure under the new TA do not appear unreasonable.

Future Proofing – Option to Extend

We note that the New TA has a fixed 15-year term to 30 September 2036. PTL has no unilateral right to further extend the New TA on fair commercial terms on expiry in 2036. We therefore consider it is essential that PTL initiate further engagement with the relevant stakeholders to explore options for the arrangements for access to the GB market beyond 2036. We suggest that a strategic review could be undertaken in 5 years time to explore options and assess their implications and develop a plan to mitigate any associated risks. This should include an examination of the regulatory safeguards for NI consumers.

Conclusion

We consider that approving the TA is consistent with our principal objective and general duties in gas, and in the best interest of consumers of gas.

Replacement of Schedule 2

We note that the terms of the Operating Provisions in Schedule 2 remain under discussion between PTL and GNI (UK). You have clarified that until such time as the new terms of the Operating Provisions have been finalised, the existing ones shall remain in force.

¹ [GNI \(UK\)/Mutual Energy Limited: Northern Ireland Gas Capacity Statement 2021/22 – 2030/31.](#)

As it is uncertain at this stage what exactly the proposed new terms of the Operating Provisions will be once finalised, we cannot assess at this stage whether their implementation would be consistent with our principal objective and general duties in gas, and in the best interest of consumers of gas. We consider that a prospective approval would therefore not be appropriate.

Decision

Having considered the New TA, we approve the updated version submitted on 7 September 2021 under Condition 2.4C.2(c) of PTL's licence for the conveyance of gas in Northern Ireland.

We do not grant at this stage prospective approval of a future replacement of Schedule 2. However, we are open for an approval request for such a replacement Schedule 2 to be submitted and considered in due course, once the replacement Schedule has been finalised between the PTL and GNI (UK).

We note that as part of our decision process, we have engaged with both Ofgem (Office of Gas and Electricity Markets) and the CRU (Commission for the Regulation of Utilities) to develop a joint view on whether the New TA should be approved and implemented.

We understand that PTL and GNI (UK) also require Ofgem's approval under their respective Gas Interconnector Licences to the entering into of the New TA. We ask that, provided this approval is granted, PTL and GNI (UK) take all necessary steps that can be reasonably expected to ensure the New TA comes into legal effect prior to 1 October 2021.

Yours sincerely



Tanya Hedley
Networks Director
For and on behalf of NIAUR

Cc Brian Mullins, GNI(UK)