

## **Inventory Product**

### **Inventory Product Post Streamlining Consultation**

**December 2006**

#### **1. Introduction**

- 1.1 firmus energy has approached Ofreg outlining their plans to run a Northern Ireland Inventory Product which could potentially enable NI Suppliers to make nominations for gas storage on the NI Transmission Network. Initially the NI Inventory Product will be a trial, with firmus energy the supplier and BGE (NI) the Transporter. In summary, the aim will be to purchase gas at cheaper periods for example at the weekend (subject to gas availability and pipeline capabilities) and store this gas in the pipeline for use at peak times, when there is a potential for gas to be more expensive.
- 1.2 firmus energy has initially requested to run the Inventory Product on the North West Pipeline and South North Pipeline, pre streamlining and BGE (NI) have submitted the Business Rules for the product (attached with e-mail). Ofreg has approved these Business Rules on an interim basis until 31<sup>st</sup> January 2007 (current 'go-live' date for streamlining is 1<sup>st</sup> February 2007). These Business Rules set out the conditions to which the product will operate on the NWP and SNP and are conveyance arrangements outside of the Code (in accordance with Condition 2.4.2 (c) of the BGE (NI) Transmission Conveyance Licence). Both the Transporter and supplier reserve the right to withdraw from this interim product at any time. Ofreg will retain the right to terminate the product at any time.
- 1.3 With regards to the Inventory Product running post streamlining i.e from 1<sup>st</sup> February 2007, a decision will be made in January and Ofreg are issuing this short consultation paper to set out the broad principles of how the product will operate post streamlining and to seek views on the viability of this product once streamlining is implemented.

## **2. Inventory Product - Post Streamlining**

- 2.1 If it is decided that the Inventory Product should run post-streamlining then in order to establish proof of concept, the product will be a trial until December 2007 (subject to review) with firmus energy as the supplier and BGE (NI) the transporter. Following the trial, Ofreg will determine whether the product has been successful and whether it has been operationally feasible and commercially viable. A decision will then be made on whether the product should continue long term.
- 2.2 For the duration of the trial, firmus energy has requested to be exempt from a number of sections in the Transportation Network Codes. As is the case for the interim product on the NWP/SNP, a set of Business Rules will be put in place setting out how the product will operate during the trial. Ofreg will then approve these Business Rules which will be conveyance arrangements outside of the code.
- 2.3 The aims of the trial are; firstly, to identify the volume opportunity for storage within the NI Transmission Network, secondly, to understand and resolve the operational and code issues associated with storage and thirdly, to quantify what savings may be derived from buying and storing gas when commodity prices are low and extracting it when these prices are high.

## **3 Operations**

- 3.1 In order to minimize cost, the NI Inventory Product trial will be operated manually to begin with which may place certain restrictions on the product. Only once the product is considered to be viable by all parties will the product be systemized.
- 3.2 It is envisaged the product will run under the following principles:
  - (i). All other suppliers will be kept whole from an operational and commercial point of view;
  - (ii). The product will operate as an interruptible service and nominations into and out of inventory will be interruptible. The title of gas passes to the Transporter when gas comes into the NI network and passes back to the supplier when allocated at exit;
  - (iii). The product will have a maximum injection capability and therefore the Transporter will accept/reject inventory nominations, based on current NI system requirements;
  - (iv). The initial volume available will be 250,000 kWh (subject to further modeling) which will be available in a single block, though this may increase depending on modeling;

- (v). Firm capacity nominations under the codes, will take priority over interruptible inventory nominations;

#### **4 Nominations/Allocations**

- 4.1 The supplier will request the inventory capacity on 'D-1' from the Transporter and shall nominate for day 'D' no later than midnight on 'D-1' confirming the inventory nomination quantity and whether it is an injection or withdrawal to/from the NI network. The 'injection/withdrawal' quantity will be a single agreed block of 250,000 kWhs (subject to modeling) with no other value permitted. All communication will be via fax until systemization of the product has been approved.
- 4.2 The supplier may only re-nominate for a change to its 'normal distribution usage' under the code rules and may not re-nominate for a change to the injection/withdrawal quantity. The Transporter may interrupt a nomination with two hours notice (unless an emergency has been declared) and the supplier would re-nominate all inventory to zero.
- 4.3 The Transporter shall notify the supplier of the initial Inventory allocation not later than 16:00 on 'D+1' and shall maintain a record of the quantity of the Inventory gas in storage in the NI network at the end of each gas day.

#### **5 Costs/Savings of Inventory Product**

- 5.1 To give an indication of costs, the costs associated with the interim trial on the NWP/SNP have been confirmed by the Transporter and are broken down as follows:
  - (i). Grid Control @ €2,083 per month
  - (ii). Trading and Settlements @ €417 per month
  - (iii). Shipper Services One off fee of €5,000 - €7,000

It should be noted that these costs are pre streamlining costs and do not include costs to systemize the product or to make the product available to all suppliers.

- 5.2 Any savings incurred during the trial will be split 50:50 between the supplier and the Transporter. The supplier will pass any savings onto NDM consumers, through a reduction in NDM tariffs and the savings will be used by the Transporter to reduce their required revenue. Ofreg has confirmed that the costs of operating the product will be paid off before any savings are passed on.

- 5.3 Ofreg welcomes the potential benefit of such a product and experience from the RoI Inventory product in 2005/06 indicates that there is potential for the supplier to make savings. These savings will not only benefit the supplier's customers but will also benefit all gas customers through a reduction in the Transporter's required revenue leading to a reduction in the Postalised Tariff.

## **6 Ofreg View**

- 6.1 The Product will be fully transparent and regular updates will be provided to Ofreg throughout the duration of the trial. It has also been agreed that if Ofreg decides that the Product is not ultimately benefiting Northern Ireland gas customers then it will be terminated.
- 6.2 As stated earlier, Ofreg has given approval for the Inventory product to run on the NWP and SNP on an Interim Arrangement until 31<sup>st</sup> January 2007. In the meantime Ofreg will consider responses to this note and will examine the issues of the product running post streamlining. A decision will then be made in January to determine whether or not the product should continue to run from 1<sup>st</sup> February 2007 until December 2007 with firmus energy as the supplier and BGE (NI) the Transporter.
- 6.3 Ofreg welcomes all comments and request that they are forwarded to [ian.davidson@ofregni.gov.uk](mailto:ian.davidson@ofregni.gov.uk) by Friday 12<sup>th</sup> January 2007.