

PTL Response to CAG Gas Operational Discussion Paper 21st May 08

Introduction

PTL respond to the paper on behalf of both Premier Transmission Ltd and Belfast Gas Transmission Ltd.

Since the mutualisation of the Scotland to Northern Ireland Pipeline (SNIP) in 2005, PTL has reduced the cost of transportation in NI by £6m per annum. Mutualisation of the Belfast Transmission Pipeline (BTP) in March 2008 introduced a further £5m per annum in savings. The mutual model applied to transmission assets we operate in NI is therefore delivering approximately £11m savings per annum, incorporating the cost of capital savings and the fact we have consistently keep the cost of operation significantly lower than the previous owners.

These savings have only been possible by obtaining very low costs of capital from the bond markets, which has been secured by having a stable regulatory environment and successful operational model. PTL has a duty to its fund providers to ensure a continued secure regulatory environment and successful operational regime and can only support changes through the CAG work streams that;

- in no way increase the risk of full revenue recovery through a system which minimises market risk and shipper default risk.
- maintain PTLs ability to invoice and generate at least its required revenue in a secure regulatory regime such that our fund providers are satisfied,
- does not erode the reduction in NI transportation costs achieved to date, and
- does not add operational risk or incur un-proportional cost.

PTL believe that the CAG should build on the success of mutualisation to reduce the cost of transportation to Northern Ireland consumers. Access to Corrib, Storage etc on an all island basis should not be at the expense of increased transportation tariffs for Northern Ireland. PTL would go further to suggest that mutualisation of Transmission Assets should be considered by owners and regulators as a way to avoid tariff increases.

In this response PTL shall provide its initial views on the various CAG operational options. A definitive preference of operational option is not possible at this stage as we believe that such a decision can only be taken in conjunction with all CAG work streams and not on a standalone basis and this is reflected in our concern on the timing of decisions on the separate elements of CAG.

Furthermore PTL will be required to notify and gain approval from its financiers prior any change to our current financial, commercial and operational arrangements. We believe the correct timing for this notification and approval is when a clearer cost picture of the likely arrangement options has been developed.

The consultation paper questions have been answered where possible, questions that have not been directly answered are either included in the PTL general response or are redundant given any PTL preferred approach.

CAG Vision and Goals

Q1. Are there any other criteria against which to evaluate the options for common operation?

PTL agrees with the goal options used to select the appropriate operational regime and at this stage does not wish to add any other criteria.

Q2. Do you have a view on whether any criteria should be prioritised over others?

All of the goals are important in the selection criteria and at this stage believe priority is not required. In any case we believe that each goal should be definitive **where possible**, i.e. as per the Customers Friendly goal only one set of Shipper nominations is desirable as apposed to two or more.

Q3. What is your initial view of the costs/benefits of common operational arrangements for shippers/suppliers?

The CBA was completed at a high level and identified benefits, approximately 80% being operational. The operational benefits were derived from one logical approach to efficient operation of the system. We believe this should be fully modelled to confirm the expected savings presented and also identify any other approaches to system operation and the subsequent drawbacks of any operation methodology proposed.

Functions to be Optimised

Q4. Which functions should be performed on an all-island basis?

We believe the following functions could be performed on an all island basis by a single party, however the various codes and procedures that define the functions need to be agreed and governed by the asset owners/operators;

- Long term management of the transportation arrangements including product offerings,
- Day to day operation of the transportation system (e.g. moving gas around the system, dealing with nominations etc.) – within pre-defined parameters laid down by the Asset Owner (see later)
- Balancing the system,
- Procurement of fuel for balancing, compression and shrinkage,
- Capacity trading – We anticipate this trading between Shippers and the central function should only be to record any trading,
- End of day settlement and allocations,
- Congestion management – We anticipate the role would only be to facilitate the rules laid out in respect of congestion management,
- Emergencies - We anticipate the role would only be to follow predefined procedures to prevent emergency and act as a central point of communication during an emergency,
- Collection and disbursement of code charges,

We believe the following functions are the responsibility of the asset owner;

- Emergencies – developing emergency procedures, taking executive action during an emergency, and carrying out subsequent investigation

- Maintenance of the transportation system,
- Operation of the Transmission System – we believe that asset owner must continue to set the parameters within which the owners pipeline can safely operate – for example, the extent to which a pipeline is exposed to cycling pressures within a day could have an impact on its useful life
- Connections to the transmission system – we believe a common connection policy should be developed and agreed on an all island basis, however it should be the asset owner/operator that manages any new connection in accordance with the policy.
- Measurement – measurement and validation of metering equipment should lie with the asset owner, measurement data can be forwarded for use by any GTMBS/GTMS.
- Planning and development of the transmission system – we believe the current arrangements whereby the transporters develop NI and ROI capacity statements in association with the respective regulators should be extended to an all island coordinated approach,
- Invoicing of transportation charges (those which recover the capital and operational costs of the network).

Q5. What is your preliminary view of how transportation charges should be collected and distributed?

We expect to respond in full to collection and distribution of transportation charges via the common transmission tariff work-stream. However initial legal advice has indicated that bilateral agreements in respect of the transfer of monies would not be acceptable. The current NI PoT system supported by the credit arrangements via the NI Network Codes would be an absolute minimum in any new transportation charge methodology and changes would only be acceptable if they strengthened the current arrangement.

System Operation

PTL has reviewed the various options for system operation on an all island basis and concludes that although the “Coordination between multiple TSO/TOs option” appears to require minimal change, it does not achieve the efficiencies sought under the CAG goals. For example, this option could yield multiple control rooms, IT systems, etc which could logically increase cost. Efficient flow and single balancing of multiple transmission systems would require complex arrangements to be put in place should multiple control rooms and IT systems be involved and this would add risk. At this stage we do not believe that this option should be progressed.

PTL’s current arrangements in respect of system operation include the following;

1. Setting of **all** operational procedures and parameters,
2. Ensuring that the asset operation is efficiently outsourced to a competent party,
3. Continual audit and review of competent party and provision of evidence of the management of the service provider to meet statutory obligations laid out in the safety case.

We believe that the above arrangements can be facilitated by a Single Service Provider, SSP approach. It may be the case that the arrangements can also be facilitated by a NI TSO or an all island TSO, however it is our understanding that fundamental NI Health and Safety legislation would need to change to accommodate a NI TSO or all island TSO. We do not believe that the single TSO approach brings any additional benefits over the SSP methodology.

Should the SSP approach be adopted then we believe the next stage is to;

1. Decide who the SSP should be initially and how they are maintained in accordance with procurement legislation,
2. Decide how SSP costs should be regulated/apportioned,
3. Develop any contract between asset owners/operators and the SSP.
4. Decide which IT system should be adopted, GTMBS or GTMS. It is not logical that two systems be maintained under a SSP approach.

We believe that the decision to require new transporters coming into the market to contract with an existing SSP may need to be taken on a case by case basis, i.e. it may not be critical that a new short connection transmission pipeline be operated by a SSP whereas a new substantial pipeline that could have an effect on all island gas flows and balancing may be required to contract with a SSP to maintain efficiencies.

In terms of Emergencies, as stated earlier we anticipate the SSP role would only be to follow predefined procedures to prevent emergency and act as a central point of communication during an emergency. We believe it is the responsibility of PTL to develop emergency procedures and taking executive action during an emergency on its pipelines.

Our current arrangements to outsource the Physical and Commercial Operation of our system allow for periodic re-tendering, thereby ensuring the most efficient means. PTL would be uncomfortable with an “evergreen” arrangement as we would see this as a reduction in our ability to deliver best value.

Network Codes

Irrespective of what system operation approach is taken we believe that in terms of transmission a Single Network Code, SNC best achieves the efficiencies and user friendliness sought under the CAG goals. There may be as much work in developing the multiple/dual network code option as the SNC, i.e. in order to provide a consistent service to Shippers, the regulators and operators would be required to understand the options currently available under the various codes, and then consult on those options. It may be simpler to apply the Shipper requirements to one document as apposed to multiple/dual. Experience in keeping the Northern Ireland network codes aligned has demonstrated that the work involved is not efficient and cost effective and therefore from a future viewpoint the SNC is the best option to meet CAG goals.

The most important aspect in any transmission SNC arrangement would be the governance arrangements surrounding initial implementation and code modifications.

Ownership of the code and accession to any such code will depend upon which system operation option is developed. Should the SSP approach for operation be adopted we would anticipate that governance arrangements similar to the GB model would be required.

If it has been demonstrated by the regulators that a Total UNC is the most effective way to operate a transmission and distribution network, then logically this should be the ultimate goal. We believe the interim arrangements of a single UNC which facilitates separate distribution codes may be the best approach given the timescales involved. Where possible we believe the distinction between supply to transmission and distribution offtakes should be made clear in any UNC.

In summary, PTL are fully supportive partaking in discussion of the various options outlined in this paper, along with the various other work streams.