Commission for Energy Regulation
An Coimisiún um Rialáil Fuinnimh

Common Arrangements for Gas (CAG)

Briefing Note on the High Level Work Plan

CAG-11-001

8th April 2011

Utility Regulator
ELECTRICITY GAS WATER

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1 Introduction

The purpose of this briefing note is for the the Commission for Energy Regulation and the Utility Regulator (the Regulatory Authorities or RAs) to give an update on the status of the Common Arrangements for Gas (CAG) Project and outline the high level work plan.

Since our last update published on the 21st December 2010[1] the RAs have made good progress in addressing a number of outstanding issues. The RAs are now in a position to confirm their commitment to the following high level timelines for the CAG implementation:

- By **October 2012** an All-Island Unified Transmission & Distribution (T&D) Code with opt-outs for Northern Ireland Distributors. The code will facilitate common emergency procedures.

- By **October 2014** an All-Island T&D Code with no opt-outs and common retail arrangements, including a single change of supplier process.

The October 2012 target implementation date will be demanding but, in the RA's opinion, should be achievable. It will require, as a minimum, full buy in and commitment from all stakeholders.

A significant development in the achievement of these timelines is that following discussions with the RAs the Transmission System Operators (TSOs) have agreed to undertake the development of the Unified T&D Code to meet the objectives of the CAG project subject to the approval of the RAs.

The major work streams on the CAG project are as follows;

Work stream	Lead Responsibility	Target Implementation date
Legislation & Licensing	DCENR & DETI	Oct 2012
CAG System Operator (SO) Establishment & Implementation	TSOs	Oct 2012
All-Island Unified T&D Code (with opt-outs) development	TSOs	Oct 2012
Transmission Tariffs	CER & UR	Oct 2012
All-Island Unified T&D Code (no opt-outs) development	TSOs	Oct 2014
Common Retail Market arrangements	CER & UR	Oct 2014

[1] www.allislandproject.org/en/cag_publications.aspx?article=071faed1-ef3c-402a-9333-c912bd68e3f4

The TSOs are currently developing a detailed work plan for the development of the code and this will be incorporated into the overall CAG work plan. It is intended that the detailed work plan will be published in April, following which a workshop will be held with industry to go through it in some detail.

The work streams in the work plan remain broadly the same as before, key work-streams being:

- the single transmission tariff methodology;
- the single transmission operation regime; and
- retail harmonisation.

The remainder of this paper gives on overview of the status of each of the CAG work streams.

2 Structure for Systems Operation

In May 2008[2], the RAs issued a discussion document outlining the operational options being considered for CAG. This paper presented a number of options for single system operations on the island and for the code arrangements which could be put in place to support this.

Single systems operations will ensure:

- optimal operational flows of gas;
- a single balancing zone is created;
- a single IT interface for shippers, such that only one set of nominations is required; and
- planning and investment decisions are taken on an all-island basis either by a single TSO or coordinated among TSOs.

The RAs also outlined certain assessment criteria for the analysis of the CAG operational regime. It was the view of the RAs that any regime to accommodate CAG should be:

- efficient,
- cost effective,
- customer friendly,
- transparent; and
- consistent and compatible with developments in the EU.

[2] http://www.allislandproject.org/en/to_current_consultations.aspx?article=384959bf-f5ac-4623-bc77-e46e69d40e76

A further consultation paper was published in October 2008[3] which set out the RAs' initial conclusions on the design of the operations regime followed, in February 2009[4], by a conclusions paper on the options for the Gas Operational Regime. The RAs concluded that the single TSO model delivered single system operations and best met the criteria set out by the RAs. However, the structure of single system operations needs to be compatible with the requirements of the Third Directive, particularly the unbundling provisions. Subsequently, the Department of Communications, Energy and Natural Resources (DCENR) announced its intention to restructure Bord Gáis Éireann as an Independent Transmission Operator (ITO). This meant that the single TSO, based on an Independent System Operator (ISO) would not be possible. Therefore, the RAs and TSOs, have been examining the alternative structure for single system operator which also meets the criteria set down by the RAs i.e. a Joint Venture model (JV).

The TSOs are currently examining the options for a JV. The RAs expect the TSOs to develop proposals on the operational procedures for the JV which will then be consulted on by the RAs.

3 The CAG Code

In 2008 the RAs consulted on the options for the Gas Operational Regime[5], including whether common arrangements should be facilitated with either multiple codes, dual codes or a single code. The final conclusion with respect to the CAG code was that a unified network code for the island will be developed with interim arrangements, establishing the interface between the CAG code and the existing distribution codes. The RAs envisage that the CAG code will be in place by 1st October 2012.

The detail of the new code will be the subject of extensive consultation. With this in mind the RAs and the TSOs have reviewed the similarities and differences between the Gaslink code and the PTL code in order to identify areas of commonality and issues which require a decision. This work will now be taken forward by the TSOs who will produce consultation papers on the CAG code over the coming months.

The RAs will incorporate the TSO timetable into the detailed work plan to be published in April.

[3] http://www.allislandproject.org/en/to_current_consultations.aspx?article=384959bf-f5ac-4623-bc77-e46e69d40e76
[4] http://www.allislandproject.org/en/to_decision_documents.aspx
[5] http://www.allislandproject.org/en/to_current_consultations.aspx?article=384959bf-f5ac-4623-bc77-e46e69d40e76

4 Transmission Tariffs

In mid 2008 the RAs consulted on a number of options for CAG Transmission Tariffs the aim of which was to deliver a harmonised approach to gas transmission tariffing and regulation in Ireland and Northern Ireland. The proposals presented in the High Level Transmission Tariff Structure in Ireland and Northern Ireland Conclusions paper, December 2008[6], represented the final conclusions of the RAs in light of the analysis carried out and the consultation process that started in May 2008.

The key conclusions were as follows:

- Entry/Exit is the most appropriate tariffs solution for Ireland and Northern Ireland in a CAG regime. (Regulation 1715 in any event required Entry/Exit).; and
- There will be two Exit tariffs, one in Ireland and one in Northern Ireland.

There are a number of issues that remain unresolved. The key issues amongst these are set out below:

- **Specific Entry Asset Configuration at Moffat** - whether to combine the existing entry points into one or to retain separate entry points
- **Interruptible Products** – this is an obligation under EC legislation and the RAs will consider how these products should be tariffed.
- **Capacity Commodity Split** - In both jurisdictions, capacity/commodity charges are levied, but at different proportions (Ireland 90/10; Northern Ireland 75:25). The tariff consultations will need to consider whether to harmonise these.
- **Transmission tariff treatment of storage** - Currently there are no gas storage facilities in Northern Ireland. However there is a commercial storage facility in Ireland which is operated by Kinsale Energy Ltd and is located at Kinsale. A number of parties have indicated their interest in developing storage facilities in Ireland and Northern Ireland. As such a work stream to develop a transmission tariff for storage has been included in the overall CAG tariff work.
- **Non Annual Gas Products** - There are currently a number of non annual gas products available in Ireland and Northern Ireland. To date there has been no harmonisation of these products however this will need to be considered as part of the code consultations.

[6] http://www.allislandproject.org/en/tariff_decision_documents.aspx

5 Retail and Distribution

As stated earlier, the RAs are now in a position to confirm their commitment to implementation by October 2014 of an All-Island T&D Code with no opt-outs and common retail arrangements, including a single change of supplier process. The RA's will begin work in 2011 on scoping out how this will be achieved.

In October 2009[7], the RAs along with Gemserv, completed a high-level review of the IT systems in Ireland and Northern Ireland to understand and assess how they support the retail processes integral to the market. The main processes for the review were the change of supplier process, meter operation and data collection.

The review of the systems serving Northern Ireland and Ireland focused on an assessment of the suitability of adapting one or both systems to serve the combined markets and to determine the important aspects of the processes and systems to be retained in CAG.

A number of high level options were identified as part of the review. These options were then assessed against a number of criteria taking into account feedback received from the DSOs in both jurisdictions.

The RAs will now initiate further work on the basis of the review. It should be noted that the CAG process will need to scope out what will be involved in CAG retail and the work plan will be updated once this is resolved.

6 Other work-stream areas to note

6.1 Legislation

DETI and DCENR are currently working together on the legislation for CAG in order that it will be in place for the go live date of CAG, October 2012.

A key legislative issue will be the governance arrangement for CAG. One option is to expand the remit of the SEM committee to include CAG matters.

[7] http://www.allislandproject.org/en/retail_decision_documents.aspx?article=fcbbd86f-bf33-4a8d-8235-4228409fd59c

6.2 Cost Benefit Analysis

The Stage Two Cost Benefit Analysis was published in April 2009[8]. It considered a wide range of potential impacts on the CAG project and has identified considerable qualitative and strategic benefits including increased investment in the gas industry to improved security of supply across the CAG network. Overall, the CBA concluded that CAG would deliver significant benefits to consumers and industry on the island. These mainly derive from the benefits of being in a larger market and are strategic in nature. They include:

- Increasing Competition;
- Enhanced Investment Potential;
- Improved Security of Supply;
- Interoperability with GB and Europe;
- Level Playing field for SEM; and
- Efficient Network planning.

As well as the list of strategic benefits the RAs analysis demonstrated that on a purely quantitative measurement the project delivers a net present benefit (NPV) of £10.6 million (over 10 years using a discount rate of 3.5%) across the whole island with positive benefits in both jurisdictions.

The RAs have reviewed the CBA given the change in structure of CAG from the single TSO model to the JV model and they have concluded that the benefits to customers and industry, as outlined in the original CBA, are unaffected by the JV model.

6.3 Gas Quality

The RAs published the Gas Quality decision paper in March 2009[9] and as such this work stream is complete.

The RAs continue to facilitate the Gas Quality Industry Group, and it meets at least twice annually or as frequently as the Group considers appropriate. The RAs will also continue to monitor European developments.

6.4 Security of Supply

In December 2008[10], the RAs published a Consultation Paper on Security of Supply arrangements in Ireland and Northern Ireland. The Consultation Paper set out the current

[8] http://www.allislandproject.org/en/cba_2.aspx
[9] http://www.allislandproject.org/en/gas_decision_documents.aspx
[10] http://www.allislandproject.org/en/sss_decision_documents.aspx?article=4249531a-818d-40ab-9794-da85d6257aec

security of supply standards in Ireland and Northern Ireland and discussed areas of potential harmonisation across both jurisdictions through CAG.

The RAs will now initiate further work, in co-operation with the Departments on the basis of this consultation and ongoing requirements as a result of the Security of Gas Supply Regulation 994/2010.

Since 2009 the Gas Capacity Statement has been carried out jointly under the CAG project. This will continue and will be used as a basis for carrying out risk assessments and developing preventative action plans as required in accordance with Regulation.