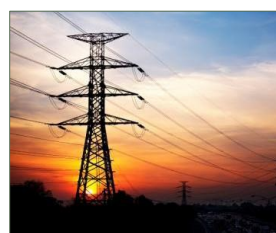


Gas Transmission

Licence changes for Congestion Management Procedures (CMP) in Northern Ireland

Decision Paper
16th January 2014



About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs; Electricity; Gas; Retail and Social; and Water. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

Our Mission

Value and sustainability in energy and water.

Our Vision

We will make a difference for consumers by listening, innovating and leading.

Our Values

Be a best practice regulator: transparent, consistent, proportional, accountable, and targeted.

Be a united team.

Be collaborative and co-operative.

Be professional.

Listen and explain.

Make a difference.

Act with integrity.

Abstract

This paper sets out the Utility Regulator's decisions on changes to transmission conveyance licences to implement Congestion Management Procedures (CMP) in EC Regulation 715/2009 as amended by the European Commission Decision of 24 August 2012.

Audience

Regulators, industry, consumers and statutory bodies.

Consumer impact

The introduction of the CMP mechanisms will further the implementation of the Gas Regulation in Northern Ireland.

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1.Introduction

Purpose of this paper

- 1.1. This paper explains the Utility Regulator's (UR's) decisions on changes to the conveyance licenses of the gas transmission system operators (TSOs).¹ The licence changes are necessary to implement the Congestion Management Procedures (CMP) required by EC Regulation 715/2009 (the Regulation).²
- 1.2. On 1 October 2013 the UR published the text of the proposed CMP licence modifications for each TSO for consultation.³ An associated consultation document explained the detail of the licence changes proposed and their rationale.⁴

Background

- 1.3. The aim of the CMP requirements is to address the issue of contractual congestion at Interconnection Points between adjacent gas transmission systems, where network users cannot gain access to capacity notwithstanding the physical availability of such capacity. CMP mechanisms aim to prevent capacity hoarding by maximising the capacity which is available to network users and bring unused capacity back to the market to be resold through regular capacity booking procedures.
- 1.4. CMP involves a suite of four distinct mechanisms which are explained in section 1 of the October consultation paper – surrender of contracted capacity, Long Term Use It or Lose It (LTUIOLI), Oversubscription and Buyback (OS&BB), and Firm Day Ahead Use It or Lose It. Firm day-ahead UIOLI is not required until 1st July 2016. The other mechanisms must be implemented by 1 October 2013.

¹ Bord Gas Eireann (UK) (BGE(UK)), Premier Transmission Ltd. (PTL), and Belfast Gas Transmission Ltd. (BGTL)

² As amended by the European Commission Decision of 24 August 2012

³http://www.uregni.gov.uk/news/utility_regulator_gives_notice_of_proposed_modifications_to_gas_transmissio

⁴ The TSOs have separately consulted on the code changes needed to implement CMP and on the detail of the Over subscription and buy-back Scheme.

2. Summary of consultation responses

Summary of responses received

2.1. Responses were received to the consultation from:

- AES UK and Ireland;
- BGE(NI); and
- Mutual Energy Ltd.

2.2. The responses are published on the Utility Regulator website.

2.3. AES had no comment on the proposed licence changes.

2.4. MEL indicated that it was broadly supportive of the changes proposed subject to the comments outlined below. Firstly, MEL argued that a cap on buy-back costs is essential and that it would be appropriate for this to be captured in the licence as an additional TSO obligation.

2.5. Secondly, in relation to how TSO costs in administering CMP should be treated, MEL was concerned that UR's proposal to meet the administrative costs from OS revenues would introduce a new requirement for separate accounting for the TSOs and (at minimum) a new annual (ex-post) approval process, which could be disproportionately cumbersome for the UR and for TSOs. MEL agreed with the UR that the administrative costs in running the arrangements are likely to be a small incremental addition to its normal running costs and believed that the simplest approach would be to allow these to be recovered from within the postalised tariff. Therefore the activity of providing OS Capacity would be one of the normal operating activities of the TSOs to be included in their Opex allowance. MEL also proposed a number of minor changes to the licence drafting consulted on, mainly for clarity and consistency purposes.

2.6. BGE(UK) stated that it would welcome further discussion on whether the buy-back cap should be explicitly referenced in the licence. BGE(UK) also stated that all reasonable and efficiently incurred costs in relation to CMP should be allowed once the rules are activated. BGE(UK) in addition proposed minor changes to the licence drafting consulted on.

3.UR response and decision

UR response on the Buy-back cap and costs

3.1. We believe that a cap is appropriate in Northern Ireland in order to mitigate any gaming opportunities which could occur from the provision of over subscription and buy-back. In NI the cap will protect both TSOs and shippers who would ultimately pay for excessive buy-back costs incurred by the TSOs if there is no cap.

3.2. However, we believe that it is sufficient to incorporate the cap in the Scheme and that it does not need to be incorporated into the licence itself. Once the cap is incorporated into the Scheme the TSOs must apply it and it cannot be changed without the UR's consent. Accordingly we have not proposed any new licence drafting to incorporate the cap into the licence.

3.3. In relation to other buy-back costs, it is not our intention to introduce disproportionately cumbersome mechanisms for CMP costs as any costs in administering CMP are likely to be very small. Consequently, having considered the responses on this point we believe that it is appropriate for any costs once the mechanism is activated to be recovered via the postalised tariff but this would not merit the reopening of the current price controls.

UR response on TSO drafting changes

3.4. We have considered BGE(UK)'s suggestion that the words 'during such gas year' should be deleted from the definition of 'Licensee OS Revenues Share.' We agree with BGE(UK)'s suggestion and have therefore made that change in the final version of the licence modifications.

3.5. We have made minor changes to the modifications proposed for Part 2A in response to the drafting points proposed by MEL.

- We have made a small drafting change to the definition of 'Daily Capacity' to make it clear that this excludes OS capacity.
- 2A.2.1.20, 4th para. now refers to 'net revenues received' as suggested by PTL.
- 2A.2.1.8 incorporates a reference to OS capacity to make it clear that anyone utilizing OS capacity will pay the postalised commodity charge. This was our stated intention at the consultation stage but we agree

with MEL that the licence drafting was not sufficiently robust in this regard.

- We have incorporated additional drafting at appropriate places to ensure that the definition of OS capacity captures all the exit points on the postalised system and the Stranraer exit point.
- In the definition of Entry Point Technical capacity we have made a slight change to delete Economic Network and simply use the term network instead. Economic network has a very restrictive definition in the PTL licence which we agree is not appropriate for all three licences.

3.6. In making the final licence modifications we have also added into para. 2A.2.1.17 the date by which the Scheme is to be submitted (the 13 December 2013). We have also added drafting for clarification at the end of 2A.2.1.6(b) and have removed the square brackets in the definitions of UC Exit Point and UC Gas Supplier and inserted the date on which the PTL licence was granted.

3.7. We believe that the minor drafting changes outlined above make the drafting clearer and do not change the intent of the original drafting in any way.

UR decision and modification implementation date

3.8. The UR's decision is therefore that the modifications will be made with the changes described above. The final version of the modifications made is published alongside this document.

3.9. The TSOs have consented to the licence modifications, including the changes described above. The modifications came into force on 15 January 2014.