

**BGE(NI) Transmission comments on NIAER paper titled
“Incorporating the South North Pipeline into the Northern Ireland Gas
Transmission Regime”**

BGE(NI) Transmission welcome the opportunity to submit comments on the paper circulated by NIAER on 25th July 2005.

The paper poses many interesting questions and will help to stimulate debate on the issues facing the developing gas markets on the island of Ireland

BGE(NI) Transmission believe the key issue is the need to further develop the current arrangements to take account of the introduction of the South-North Pipeline currently scheduled for Q4 2006.

Benefits of the South –North Pipeline

The South-North Pipeline is a significant development for the gas markets both North and South as it introduces a physical link between the two. The completion of the South-North Pipeline will introduce a number of new benefits for the Irish gas industry including;

1. Improving security of supply for Northern Ireland customers with the introduction of a second entry point to the postalised network;
2. Facilitating supply to the towns located close to the route of the South-North Pipeline including Antrim, Portadown, Craigavon, Banbridge, Newry and Armagh;
3. Facilitating the further development of gas supply in the Phoenix licensed area via a supply to Lisburn;
4. Introducing supply choice for Northern Ireland Shippers and consumers via the ability to source gas at entry points other than Moffat/Beattock. It also introduces possibilities for gas producers in the South to participate in the Northern Ireland gas market via a physical link between the two markets;
5. Facilitating the transportation of additional volumes of gas for Northern Ireland through the Interconnector System (IC1 and IC2) when SNIP is full.

BGE(NI) Transmission recommend that the development of the contractual and regulatory for the introduction of the South-North Pipeline should be progressed on a phased basis.

Phase One Implementation

We believe that phase one should focus on delivering the benefits identified in one through to four on the list above which may be delivered on completion of the South-North Pipeline.

Work is progressing on alternative sources of gas including the new Corrib field and a storage service under development by Marathon at Inch.

With the commissioning of the South-North Pipeline there will be a physical link between the gas markets North and South and industry participants both North and South will require that the contractual arrangements are developed to allow them to

avail of increased opportunities in the wider market created by this physical interconnection.

While it is the intention that the All Island Market in Gas (AIMG). will facilitate this objective, given that physical interconnection is currently scheduled for Q4 2006, consideration needs to be given to possible interim solutions, including interim tariffing arrangements to allow transportation of gas between the two jurisdictions.

We believe that industry should focus in the short term on developments to the contractual and regulatory framework to deliver the benefits outlined in one through to four above including;

- Modification of transportation arrangements in the North to cater for the introduction of a new Entry Point to the postalised network via the South-North Pipeline;
- Modification of the transportation arrangements in the South to cater for the introduction of a new Connected Systems Exit Point into Northern Ireland;
- Transit tariff arrangements should be considered to allow Corrib and/or Inch gas flow to Northern Ireland;
- Roles and responsibilities around safety, security of supply and emergency procedures will need to be clarified given the physical interconnection between the two pipeline systems South and North.
- Clarity will be required from the Regulatory Authorities in areas such as licensing and regulation of the South-North given the pipeline route will cover two regulatory regimes.

Phase Two Implementation

BGE(NI) Transmission believe that phase two should address delivery of the fifth benefit identified above, facilitating the transportation of additional volumes through the IC System for Northern Ireland. We believe that further clarity is needed on the amount and timing on the requirement for additional Moffat to Northern Ireland Capacity and this clarity will be available after completion of the update of the Northern Ireland Pressure Capacity report which is currently in progress.

BGE(NI) Transmission feel that the decision on booking IC capacity may also be affected by the outcome of proposals currently being consulted on for licencing of interconnectors between the island of Ireland and GB.

While arrangements to facilitate the transportation of additional volumes through the IC system for Northern Ireland are important, this requirement is likely to be more medium term and the arrangements put in place for this should be implemented in the context of the developing AIMG

Development of the existing contractual framework for gas transportation in Northern Ireland.

The existing contractual framework for gas transportation in Northern Ireland evolved from an extensive industry consultation throughout 2003 and 2004. The objective of this process was to implement transportation arrangements consistent with a system

of postalised tariffs with three transmission asset owners on an extended gas transmission network. The gas transmission network consists of three pipeline systems each owned by a Designated Pipeline Operator (DPO) licensed by NIAER. PS Gas Suppliers/Shippers contract for gas transportation services with the DPO's and pay the postalised tariff for these services.

With the benefit of nearly a year of successful operational experience of the postalised gas transmission networks in Northern Ireland BGE(NI) Transmission agree with the Authority that there may be ways to streamline the operation of the existing system.

BGE(NI)Transmission note the request in the NIAER paper for development proposals based on international experience, and we would highlight recent developments in the UK where some of the pipeline assets have recently changed ownership.

A single Network Code has been replaced with a Unified Code, the ongoing development of which will be managed by all the GB Transporters in conjunction with industry.

In addition to this Unified Code each licensed network owner has put in place a separate "short form" Network Code.

BGE(NI) Transmission feel that it would be preferable if any changes to the existing regime should pre-AIMG, be incremental to the existing arrangements, and should not place any impediment to developing the AIMG.

BGE(NI) Transmission believe there is merit in investigating the feasibility of implementing a form of unified code for Northern Ireland based on the existing Codes and feel it likely that such arrangements would deliver many of the benefits identified by NIAER in the paper including, a single Northern Ireland balancing zone, and the possibility of Shippers making one nomination for entry and exit on the Northern Ireland Postalised Network.

Such arrangements would also be complimentary to the postalised system of tariffs and is familiar concept in that there are already two sections of the existing Codes which are common to the three Network Codes in Northern Ireland.

It should be noted that the introduction of the South-North Pipeline does not introduce any additional complexity for Shippers sourcing gas through SNIP.

The existing arrangements for gas transportation from Moffat to an Exit point on the postalised network in Northern Ireland involves up to four different sets of transportation arrangements.

It should also be noted that Shippers in Northern Ireland are not required to sign onto all four sets of transportation arrangements but are only required to sign onto the Codes associated with the pipelines through which they transit gas.

While some party will be required to contract for additional capacity on the IC System in the future on behalf of Northern Ireland Shippers, this does not necessarily mean that all Shippers sourcing gas at Moffat through the IC System– South-North route will have to sign on to the Code of Operations in the South.

Requirement for additional Moffat to Northern Ireland capacity

Work is currently in progress to update the NI Pressure Report which will allow an informed decision on the amount and timing of additional Moffat to Northern Ireland Capacity required via the IC System.

The DPO's annually request demand forecast information from PS Gas Suppliers for the calculation of the postalised tariff and this information is also used to update the NI pressure report. This report documents the results of network analysis based on these demand forecasts, and assumptions on power generation operational profiles. BGE(NI) Transmission feel that the level of IC capacity required for Northern Ireland should be reviewed annually by NIAER and the DPO's after completion of the update to this report.

We believe it sensible that Northern Ireland Shippers should not be obliged to pay for IC Capacity until it is required, and this may not be the case for some years to come. With regard to postalising transportation costs upstream of the South-North Entry Point to Northern Ireland BGE(NI) Transmission feel that arrangements will need to be put in place to ensure that Industry participants in Northern Ireland who wish to source gas from locations other than Moffat in advance of the AIMG should not be disadvantaged.

Options for booking IC Capacity

BGE(NI) Transmission note that the Authority have outlined two possible options for booking IC capacity on behalf of Northern Ireland;

- A PS Gas Supplier/Shipper booking the required Capacity
- A DPO booking the required Capacity

Whichever option is chosen the party booking the IC capacity will be required to do this under rules common to all Shippers on the BGE Network in the South. Changes will be required to either the PS Gas Suppliers Licence or the DPO's licence to allow recovery of the costs associated with this capacity through the PoT.

It is probably more appropriate for a DPO to undertake this task as this mirrors the existing arrangement where PTL hold the capacity from Moffat to Twynholm on behalf of Northern Ireland. The decision on which DPO should undertake this task would need to be discussed and agreed by NIAER and the DPO's.

It should be noted that the IC is the subject of an existing licence and the terms and conditions for IC Capacity will need to comply with this licence.

In addition, we believe as part of the creation of rules for the AIMG that the facility may be available for multiple shippers to book Moffat to Northern Ireland capacity irrespective of which route the gas might take and accordingly we believe that these arrangements are best developed as part of the AIMG.

Options for Nominating capacity

BGE(NI)Transmission note that the Authority have outlined three possible options for nominating on a day from Moffat to Northern Ireland.

- Shippers nominating a path which maximises SNIP usage on a day
- Shippers nominating a path consistent with a Shipper's capacity booking
- The SNIP operator makes all nominations on SNIP and another DPO nominates amounts in excess of SNIP Capacity on IC.

The benefits in maximising SNIP usage on a day may be limited as the commodity component of the Moffat Entry tariff is 10% (rather than 50% in the North's Postalised Tariff), moreover any benefit will likely be outweighed by the additional complexity introduced by nomination paths changing from day to day and indeed within day. The third option above also raises the level of complexity in that two DPO's will have to co-ordinate nominations from Moffat to Northern Ireland which will be changing within day.

While it may be worthwhile discussing further the options put forward by the Authority, it is important to bear in mind that operational rules for Shippers and DPO's need to be clear.

Some of the options proposed would require Shippers to nominate different paths depending on the aggregate of all nominations into Northern Ireland.

An arrangement where a Shipper nominates in accordance with his capacity bookings is arguably the most robust solution and requires minimum changes to existing arrangements. It also has the benefit of being operationally very clear for the Shippers and the DPOs.

Option three outlined in the paper also contemplates capacity on the IC System being booked under the existing PTL-BGE(UK) agreement. It should be noted that that the terms of this agreement do not cover IC capacity but capacity from Moffat to Twynholm only, and was put in place prior to the contractual framework for booking IC capacity – The Code of Operations in the South.

The Transporter and Shippers in the South are obliged to comply with the provisions of the Code of Operations under their respective licences.

Interruptible Service

BGE(NI)Transmission note that NIAER are minded to retain an interruptible service.

If an interruptible service is retained on the postalised network careful consideration should be given to the rules around such a service to ensure that a flight from firm does not result.

While there may be benefits in an interruptible service to facilitate the growth of distribution utilities thereby lowering charges for all Shippers due to increased volumes, further consideration needs to be given to the availability of an interruptible service when the power station SoP contracts run out.

Single TSO

BGE(NI) Transmission feel that the benefits identified in the paper for the introduction of single TSO (a simplified operational interface) may be delivered by further development of the existing arrangements.

The paper identifies that there may be significant costs associated with the development of a single TSO for Northern Ireland, and given the current work in

progress on the development of the AIMG, there is a risk that these costs may not be optimal.

BGE(NI) Transmission feel that the roles and duties of a single TSO need to be clearly defined and agreed. A robust contractual model would also need to be developed with clarity on obligations and responsibilities for all parties.

TSO roles and responsibilities vary considerably from market to market, and indeed it could be argued that the current model for gas transportation in GB encompasses elements of the single TSO concept.

We believe that further discussion is required between NIAER, the DPO'S and indeed all industry participants to reach a common understanding on the roles and responsibilities of the single TSO.

Issues such as licencing of the single TSO and the various asset owners is also an area which would require an amount of work to ensure clarity for both asset owners and the operator.