

## **Coolkeeragh ESB response to Incorporating the SNP into the Northern Ireland Gas Transportation Regime**

Coolkeeragh ESB welcome this opportunity to input into the consultation on the incorporation of the South North Pipeline (SNP) pipeline, and look forward to its timely completion. The SNP is a key piece of gas infrastructure which should address gas capacity shortfalls, improve security of supply, and bring gas to new towns in Northern Ireland from 2006 onwards.

Coolkeeragh ESB concur with the Authority that a coherent operational regime is required post SNP, to incorporate the SNP and to provide for the sharing of gas transmission infrastructure with the Republic of Ireland in advance of any all-island arrangement. A key test of the regime implemented is that the SNP is operated in a manner that enables it to deliver the benefits which predicated the significant investment made in this asset. It is expected that the SNP will flow gas South to North as the SNIP has not enough capacity to meet Northern Ireland's growing gas demand. The consultation paper contemplates distillate burning to minimise IC capacity costs. This would introduce security of supply risks that the Northern Ireland electricity industry is forced to live with today due to SNIP capacity shortfalls and that the SNP is supposed to alleviate. This is not something which Coolkeeragh ESB can support without further detail and consideration of the operational ramifications. We would add that any interim arrangements adopted should not present a barrier to introducing an all-island regime or increase costs to NI shippers.

The consultation paper recognises the high probability of a single all-island tariffing regime in the future. An all island gas market with common tariffs, equitable access for all gas users, a single code, and a single operator would be of great benefit to shippers. We understand that forecasted tariffs - North and South - are similar in quantum, which should make implementation less problematic for users. An all island market would address issues of access to indigenous Irish resources by NI shippers, excess operational costs arising out of multiple balancing zones/codes, and simplify the sharing of IC and SNP capacity.

The NIAER should be mindful that such issues as access to Corrib and Kinsale could materialise in advance of any all-island market. To the extent practicable, interim arrangements should be flexible enough to deal with such an eventuality. Provided the transition to an all-island market is targeted within a short definitive space of time of SNP completion, any shortcomings should be more of a theoretical issue than a practical problem for NI shippers. A high level 'project timeline' including issues such as tariff alignment, a single operator and a single code, would be preferential to providing solutions to theoretical problems, which may never arise, with an elaborate and potentially costly interim arrangement. To this end, a consultation on the All-Island gas market should be progressed, in parallel to this process, to the point where principles are agreed so as to ensure that interim measures put in place do not inhibit the coming about of an optimum all-island solution for Northern Ireland.

In relation to the five key issue highlighted in the paper, Coolkeeragh ESB are of the view that:

1. IC capacity should be identified based upon bookings and forecast demand in a similar manner to the network studies carried out for 04/05 by operators who can then state how much additional capacity is required based upon prudent industry practice.
2. IC capacity should be booked by the operator rather than by individual shippers.
3. Operator should liaise with IC on a daily basis
4. NI should move from three operators to a single operator
5. An interruptible service should be offered provided there is a genuine risk of interruption and that the code allows for same. It should be priced as per 100% loadfactor methodology. This will hopefully induce demand growth and result in lower tariffs for users.

## **Background**

Coolkeeragh ESB currently ship gas across two balancing zones and are a party to three network codes. This has exposed CESB to greater operational risk and costs than other NI shippers. CESB would be happy to provide details to NIAER that demonstrates the problems associated with shipping across two balancing zones. Any further complications for NWP shippers should be avoided.

Coolkeeragh ESB expect to see an improvement in NI pressures as a result of SNP operation and would like to see some detail on the expected interaction between the Carrickfergus and Gormanstown flow controls.

**Q1** How should offtakes from SN in RoI be treated?

It is important that NI receives as much revenue as possible from RoI shippers using the SNP to reduce the overall level of the postalised tariff (subject to adequate capacity remaining for NI shippers). As the shipper is located in the Republic of Ireland we assume the RoI tariff rules will apply (Irish Entry/Postalised Exit). To this end, we would suggest that NIAER looks for the maximum revenue from RoI shippers using the SNP and adopt the approach that capacity is paid for by RoI shippers as a percentage of total capacity booked on the SNP (versus total capacity available). It is likely that the RoI shipper would pay BGE (RoI) the exit tariff which would then have to be transferred to BGE (NI).

**Q2** Should NI shippers RoI transmission costs (other than IC) be postalised?

We consider that NIAER should keep an open position on this issue at the moment. It is possible that an NI shipper could negotiate a commercially advantageous gas supply deal from an indigenous entry point in Ireland which could potentially benefit NI consumers. We consider that NIAER should request CER to consider a single tariff for NI shippers

transiting the RoI system set at a cap of the IC tariff. Failing this and provided the SNIP is effectively full shippers should be allowed a contribution from the postalised pot up to the value of IC costs.

Q3 How should required IC capacity be determined?

The local DPO should be responsible for notifying the SNIP operator on demand for IC capacity.

Q4 Should factors other than NI demand and SNIP capacity be used to determine required IC Capacity?

There are security of supply issues around switching from gas to distillate and back again to gas. Coolkeeragh ESB would like to participate in a more comprehensive evaluation including electricity security of supply and consideration of an interruptible product (see response to Q22).

Will any power station run on interruptible gas capacity?

How will tariffs be affected?

If a power station elects to go interruptible then who pays for distillate costs, if any exist?

Q5 Should shippers book IC capacity?

As a shipper who has experienced the complexity of operating on two balancing regimes in Northern Ireland with the additional resources and complexity this entails we are strongly opposed to shippers booking capacity on the IC. It also seems unfair that a particular shipper would have additional payment arrangements to make (including credit) and the cash flow issues this would involve. This proposal would involve significant capital and ongoing costs for a shipper due to having to sign new legal agreements and operate another gas nominating regime.

Q6 How should shippers be reimbursed if they pay the IC tariff?

This option should not be considered by the NIAER for the reasons discussed above.

Q7 How problematic would it be for a DPO to sign the BGE RoI Code?

For a DPO to sign the RoI Code they would need to carry out the following activities:

- Acquire an RoI shippers licence
- Put sufficient credit in place
- Register with the Moffat Agent
- Operate the GTMS

Most of these activities are procedural activities which the DPOs would be familiar with. There should not be an issue associated with the SNIP operator acquiring an RoI

shipper's licence as they do not have any transportation activities in RoI. The terms of the RoI shippers licence do not appear to offer any significant barrier to BGE (NI) acquiring a shipper's licence as it is a ring fenced business from BGE Transmission in Ireland. Bord Gais Energy Supply currently hold a RoI shippers licence so it should be possible for another ring fenced part of Bord Gais to hold a similar licence.

The best way to progress this may be if the DPO had an arms-length type contract with a current RoI shipper (e.g. BGES) to book the capacity and provide the nomination service on IC. This would mean none of the DPO s would need to sign the BGE RoI Code which they will probably say is difficult for them to do. This service could be tendered.

Q8 Which DPO should perform this role?

As discussed in our answer to question 3, we believe the SNIP operator is the party best placed to determine capacity bookings on the IC and should therefore be the party that books that capacity. This would also be optimum from the point of view that the SNIP operator is not a licensed transporter in RoI and it is therefore likely to be more legally straightforward for the SNIP operator to acquire a shipper's licence in RoI.

Q9 Should shippers be obliged to make all nominations through SNIP first?

We do not support an arrangement where shippers have to nominate on both SNIP and the IC as this will add significant further complexity and cost for shippers. However, we support the argument that shippers have to make all nominations through SNIP first but then the SNIP operator determines what nominations are made on the IC.

Q10 How easy will it be for NI and RoI code timings to work together?

As the deadline for nominations on the PTL code is 0800 on D-1 and is 1000 on D-1 on the BGE RoI Code, we consider there is ample time (2 hours) for the SNIP operator to determine capacity on SNIP and make a nomination on the IC if appropriate. While the SNIP renomination time is up to 3.5 hours the BGE RoI time varies between 2 hours and 5 hours depending on the renomination quantity. In most scenarios therefore it should be possible for the timings to work together.

Q11 Should IC code charges be recovered through postalisation?

Yes, otherwise no party will be interested in taking on the IC nomination role.

Q12 Should shippers nominate on IC no matter how much daily capacity is available on SNIP?

This option should not be entertained as it would increase the postalised tariff in NI and potentially lead to a shipper balancing across three networks.

Q13 What agreements will need to be in place to facilitate option 3?

We support Option 3 where an agreement is put in place to extend the PTL-BGE to cover Moffat-Gormanstown. This proposal is also likely to optimise the provision of an adequate pressure regime across Northern Ireland.

Q14 What arrangements should we seek to put in place with CER/BGE(RoI) for shipping NI gas on IC.

Ideally, we think an arrangement should be put in place that provides revenues to be provided to BGE (RoI) for the amount of surplus capacity required, but allows optimisation of flows through the SNIP and IC to best meet operational requirements.

Q15 What are the costs to Shippers of having to deal with four codes, three balancing areas etc

There are the once off set up costs of implementing parallel systems and acceding to different codes. This involves extra procedures and complexity and for shippers. The opportunity for error is increased as each operator will have preferred units/inputs.

Nominating two or three times before a deadline is always more problematic than would be the case for a single nomination/re-nomination. There are also ongoing costs that would not materialise with a single operator/nomination, these are mismatches in timing and communication which can leave a shipper through no fault of their own expose to code charges. Coolkeeragh ESB would be happy to meet with the Authority to further outline some of the present disadvantages of multiple operators/codes/balancing regimes.

Three balancing zones could easily cost treble the amount of a single balancing zone

Q16 What obstacles do DPOs see to creating a single TSO

DPO question

Q17 What contracts will have to be drafted/amended?

DPO question

Q18 What structure should the TSO take

DPO question

Q19 How should a TSO be financed?

DPO question

Q20 Who should be the TSO?

DSO question

Q21 Do parties want to see an interruptible service continue?

As the NIAER point out, the way the current SNIP code is written a Belfast shipper who books interruptible could play the system. Under the current SNIP code if there is a capacity shortfall the power generators are interrupted first even though in the case of CESB it will be paying a firm tariff. The Belfast shipper therefore has an incentive to book interruptible capacity as it actually receives a higher class of service than CESB's firm service. We consider that the interruptible service should be removed in Northern Ireland as it is providing a cross subsidy from the power generation sector to Belfast shippers. If the NIAER decide to persist with an interruptible service it should be a properly crafted service where there is a real risk of interruption.

Q22 What charges do consultees think appropriate for an interruptible service?

We consider that there should be a comprehensive debate on the merits and requirements for an interruptible tariff in NI before this question is discussed.

Q23 What additional costs would a 100% load factor tariff bring?

DPO question