

Regulation (EC) No 1775/2005
Impact on Northern Ireland's Gas
Transmission Network

Northern Ireland Authority for Energy Regulation
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1 Introduction

In September 2005 the European Commission (“the Commission”) issued Regulation (EC) No 1775/2005 (“the Regulation”). The Regulation applies to gas transmission networks only and will be legally binding on transmission pipeline operators with effect 1 July 2006.

Unlike a Directive the Regulation does not need to be implemented, meaning that the legal obligations on Northern Ireland’s (“NI”) Designated Pipeline Operators (“DPOs”) will be binding as of 1 July 2006. Although the Regulation itself does not impose any new obligations upon nor grant any new powers to the Northern Ireland Authority for Energy Regulation (“the Authority”), the Authority nonetheless has significant interest in the Regulation and is issuing this consultation for two main reasons. The first is the Authority’s statutory duties to (i) promote “the development of an efficient, economic and co-ordinated gas industry in Northern Ireland”¹ and (ii) “protect the interests of consumers of gas”². The second is that there is a possibility that the Authority will be given enforcement powers in respect of the Regulation by virtue of Article 13 of the Regulation.

The first stated reason above is of particular importance given the Authority’s view that the DPOs should avoid the unnecessary costs of introducing services where no demand for such services exists. If inefficient or uneconomic costs are incurred, consumers will inevitably suffer by way of higher transportation charges. Therefore the Authority has an interest, albeit indirectly, in understanding the impact of the Regulation in NI and helping to mitigate any negative effects.

The rest of this paper will examine the Regulation in more detail, and in particular will focus on those services stated in the Regulation that are currently unavailable in NI. This consultation is an opportunity for industry to comment on whether those services not yet provided in NI would be welcome and utilised. It should be noted that to date no shipper has approached the Authority seeking that these services be

¹ Article 14(1) of the Energy (Northern Ireland) Order 2003 No. 419 (N.I. 6)

² Article 14(2)(a) of the Energy (Northern Ireland) Order 2003 No. 419 (N.I. 6)

made available in NI. Shippers should also be aware that the Authority envisages deepening the services available in NI once the market is more mature and for the moment we are not convinced that the Regulation should be a priority. However we believe that as it is shippers that ultimately pay the cost of NI's gas transmission network, shippers have a critical role in helping all parties decide how to move forward with the Regulation and the Authority welcomes all views on the matter.

Shippers should note that if any new services are requested the Authority will ensure that service charges, including the cost of their introduction, are fair and appropriately targeted. It is our intention that the introduction of new services should not lead to any party benefiting at the expense of another. We hope that this paper will facilitate a sensible and common approach by the DPOs to the Regulation. The Authority will work with industry and the DPOs to ensure that everyone's needs are met without imposing excessive additional costs on NI's gas transmission network.

Disclaimer: The content of this paper should not be read as restricting the Authority's discretion in any way. Whilst the Authority is not aware of any such plan at present, it is possible that enforcement powers will be granted to the Authority in respect of the Regulation by virtue of Article 13.

2 The Regulation

The Regulation imposes a number of obligations on the DPOs, including the provision of a number of services that are currently unavailable in NI in the form stated in the Regulation. These services are detailed below:

Regulation: *Interruptible capacity priced to reflect the probability of interruption.*

Status: An interruptible product is currently available under the PTL network code and is priced at 100% of the postalised commodity charge only. BGE (NI) plan to introduce an interruptible product later this year.

Regulation: *Short-term access to firm capacity down to a period of one day.*

Status: Short-term access is currently available but the minimum period for booking firm capacity is twelve months.

Regulation: *Online based information on capacity and balancing status of network users.*

Status: Online based information on capacity is not currently available. Online based information on the balancing status of network users is currently available for some shippers although it is not a real-time service.

Regulation: *Secondary trading of capacity down to a period of one day.*

Status: Capacity transfers between suppliers are currently available, but only down to a minimum period of one month.

Full implementation of the Regulation requires that these services be made available as stated in the Regulation. This would require changes to network codes and IT systems, and is likely to be an expensive exercise. The Authority is keen to avoid making these changes to facilitate the introduction of services unless they are in demand and will benefit end users. Furthermore the Commission has made it clear that it does not intend for the Regulation to lead to the provision of services that are not required.

We shall now examine in further detail each of the services mentioned above.

2.1 Interruptible capacity priced to reflect the probability of interruption

The current regime offers an interruptible product under the PTL network code³ which is priced at 100% of the postalised commodity charge only. That is, the capacity charge for interruptible capacity is effectively £0 per annum, as it is in Great Britain's ("GB") gas transmission network. It is uncertain if this pricing methodology is consistent with the requirements of the Regulation.

To learn more about the Commission's expectations the Office for the Regulation of Electricity and Gas ("Ofreg") visited the Commission to discuss the Regulation in March. The Commission did not give any indication as to how interruptible capacity should be priced. The Commission's primary concern is that an interruptible product is made available in all member states, especially where there is congestion in the transmission network.

Following the findings of the NI Pressure Report, it is clear that there is no congestion in the NI gas transmission network and that there does exist unsold firm capacity. Despite this the Authority is of the view that no changes need to be made to the interruptible product on offer, including its pricing. The available interruptible product has not been widely used in the last two years, given that most shippers have a licence obligation to book enough firm capacity to ensure security of supply for their customers. Offering interruptible capacity at £0 per annum has not lead to a flight from firm. If it did, the Authority would of course take corrective action. Furthermore the Authority will continue to monitor and review the interruptible arrangements in NI as the market matures, all the while bearing in mind the possible development of an all-island gas market.

³ BGE (NI) plan to introduce an interruptible product in October 2006.

The issue of interruptible capacity was raised in our December consultation paper⁴. In light of the consultation responses, the Authority concludes that changing the arrangements and/or applying a charge for interruptible capacity will have little effect on current capacity bookings and is minded to make no amendments until at least 2008.

Q1. Is the current pricing methodology for interruptible capacity suitable?

2.2 Short-term access to firm capacity down to a period of one day

In order to provide a daily firm capacity product the current postalised tariff regime may need to be modified. Shippers' long term capacity bookings would be used to determine the forecast capacity tariff, and a combination of long and short-term capacity bookings would then be used to determine actual year end tariffs.

However this approach could lead to two very different tariffs. Making the necessary amendments to each DPO's network code and licence would be time consuming and expensive, and costs incurred would be passed through to shippers.

Q2. Are there any other possible solutions?

The Authority's interpretation of this service is to increase utilisation of transmission pipelines year round. An example might be that some transmission I&C customers find it beneficial to power their plant with gas in summer when it is cheap but use an alternative fuel the rest of the year.

If short-term access to firm capacity is made available the Authority envisages using a pricing methodology that would see lower charges in the summer and higher charges in the winter. Pricing in this manner will thus mean that shippers who ship gas all year round should not stand to gain from reducing their 12 month firm booking and then topping up using the short-term access service to meet peak winter demand.

⁴ "The NI Gas Transmission Operational Regime: The Way Forward", NIAER, December 2005.

Q3. In light of the likely pricing methodology for this service, are any parties interested in a short-term firm capacity product?

2.3 Online based information on capacity and balancing status of network users

2.3.1 Capacity

PTL currently conduct network analysis for SNIP and publish what capacity is available on SNIP via the NI Pressure Report. Under the current regime with long-term firm capacity bookings, the information provided may only ever change a few times a year if at all, and could be facilitated relatively easily via a web page. If a short-term capacity service is required by shippers, then an online product would have to be developed. Development costs are estimated to be a six figure sum and the annual administration cost of the service would be of similar magnitude.

2.3.2 Balancing Status

With respect to online based information on the balancing status of network users, PTL does not offer such a service. However BGE (NI) does provide information to shippers off the North-West Pipeline (“NWP”), allowing shippers to compare their nominations and actual off-takes. However this information is not provided in real-time, with updating occurring hourly instead. As the DPOs move towards a rationalised system (see Way Forward section) this facility may be extended across the entire network. Shippers should note that regardless of what online balancing information is eventually made available, the DPOs and the Authority will continue to monitor shippers’ balancing behaviour. If there is evidence of anyone gaming the system, code modifications will be introduced to prevent this.

Q4. If this service is required, what type of online based information in particular would shippers require?

2.4 Secondary trading of capacity down to a period of one day

Capacity transfers between suppliers are currently available, but only down to a minimum period of one month. The introduction of capacity trading down to a period of one day would have the same problems as providing short-term access to firm capacity down to a period of one day (see 2.2 above). An online product would need to be developed to facilitate short-term capacity trading. The associated costs are likely to be six figures for development costs with an annual administration cost of similar magnitude (see 2.3.1 above).

3 Way Forward

All parties should recognise that the implementation of the Regulation including changes to network codes, IT systems and commercial arrangements would be costly and time consuming for the DPOs. These costs would be recovered through the postalised tariff, pushing up costs for all users.

Furthermore it should be noted that the NI gas transmission network is currently undergoing a programme of change as the DPOs seek to rationalise the system. (Note the Authority will be consulting separately on this rationalisation process). One of the main focuses of this exercise is a move to a single balancing zone in NI. This rationalisation of the gas transmission system is set to coincide with the changes needed to facilitate the introduction of the South-North Pipeline (“SNP”), which the Authority has also consulted on separately.

SNP is due to commence operation in October 2006 and the DPOs are keen to avoid any duplication of work given the tight timescales. Hence the two work streams of delivering a rationalised gas transmission system and integrating the SNP into the designated pipeline network have been amalgamated. The Authority is keen that all parties prioritise their efforts on these two work streams, and will continue to work with all parties to maximise the benefits of change to the gas transmission system at the least possible cost.

As the market in NI matures the Authority will consider the potential of introducing additional services, and will consider how licences and network codes can be modified to allow their efficient introduction. Shippers should also note the Authority is of the view that DPOs will be compliant with the Regulation if they are ready by 1 July 2006 to put in place systems to provide a service when asked to do so. As there is likely to be a delay between a request for a service and its availability, shippers are encouraged to inform the DPOs and the Authority as early as possible of any demand for services.

Q5. Do shippers wish to avail of any of the services described in this paper, bearing in mind the likely pricing methodology to be used for each service?

This paper has examined those services required by the Regulation that are not currently available in NI. Interested parties now have the opportunity to respond to the questions posed in this paper, and in particular to point out what services are required. If there are any omissions then these should be highlighted in the responses.

Q6. Are there any other services required by shippers that should be made available under the Regulation but have not been identified in this paper?

The ultimate decision on whether to introduce new network services, bearing in mind the increase in costs associated with their introduction and running, is one for NI's shippers. We therefore welcome all views on the matter and look forward to receiving responses. The Authority will continue to work with industry and the DPOs to ensure that everyone's needs are met without imposing excessive additional costs on NI's gas transmission network.

4 Responses

Responses should be received no later than 2 June 2006. We are happy to accept responses in written or electronic format at:

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We are also happy to meet with any party to discuss any of the issues raised in this paper.