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Mr. Brian McHugh
Northern Ireland Authority for Energy Regulation
6th Floor, Brookmount Buildings,
42 Fountain Street
Belfast BT1 5EE.

Ref: "Incorporating the South North Pipeline into the Northern Ireland Gas Transmission Regime – A Consultation paper from the Northern Ireland Authority for Energy Regulation dated July 2005.

Dear Brian,

Replies to Specific Question raised by NIAER:

Q1: How should off-takes from SN in ROI be treated.

It is understood that the main reason for the building of the SN Interconnector is for the "benefit" of NI Users so as to provide an alternative supply source for gas to the NI Network when SNIP is full. It is also understood there are currently no plans for any off takes from the SN pipeline in the ROI. It is further understood that if there are to be any off takes in the ROI from the SN pipeline the number of off takes is likely to be very few and the volumes off-taken very small.

As a stated aim of the Authority is to "minimise costs to [NI] gas consumers by maximising the utilisation of the SNIP Pipeline" and as NI Users usage of the BGE Interconnectors (IC1 and IC2) is expected to be small and only of a small number of days, Energia would suggest it appears logical to charge ROI gas off takers of gas from the SN pipeline the GREATER of;

(a) a charge that reflects the true cost of transporting gas from Moffat to Belfast via SNIP and to the end user via the SN pipeline i.e. assuming that postalisation had never occured what would the charge be. Such costs would not form part of the postalised charges but rather the revenue generated by this process should be deducted from the costs of the entire NI Network each year before the postalised tariff/charges are calculated or,

(b) the cost of transporting gas from Moffat to ROI via the BGE Interconnectors and paying the appropriate Interconnector charge PLUS the appropriate non-postalised charge for utilising the SN Pipeline.

Q2: Should NI Shippers RoI transmission costs (other than IC) be postalised?

Energia agrees with NIAER on this issue that there appears to be no justification for including any other RoI Transmission costs other than IC costs in the NI postalised system charge.

Q3: How should required IC capacity be determined?

Acting in a prudent and reasonable manner one would have to assume the worst SNIP capacity scenario where all reserved capacity in SNIP is being utilised on a day (which Shippers are entitled to do) AND assuming there is NO interruptible capacity – thus the formula that should be utilised assuming one ensures a safety margin of 5% over projected demand should be:

Required IC Capacity = Total NI Demand – Max. SNIP capacity + (Total NI Demand*0.05)

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

The only other factor is a Safety Margin which is suggested should be a minimum of 5% of the total NI Demand but should possible be more than this.

Q5: Should shippers book IC Capacity ?

Currently it is only Shippers who can reserve capacity in the RoI under the BGE (RoI) Code of Operations. Hence it is only Shippers who can currently reserve capacity in the IC. Shippers in RoI have consistently stated they do not wish to allow the Transporter become a Shipper in the gas system for many reasons including the potential for a conflict of interest.

As such it is not envisaged it will be possible for any of the DPOs to book capacity in the IC. Viridian suggests that a "Lead Shipper" be appointed by NIAER/DPOs/NI Shippers the book the capacity in the IC – the easiest route is to choose a Shipper who is already a RoI shipper. For performing this task the Lead Shipper should receive an appropriate fee and be held harmless of all liabilities or costs in performing the tasks except to the extent such liabilities/costs are due to the negligence of the Shipper. All such Shippers costs directly related to the performing of this Lead Shipper function should be included in the postalised tariff.

Q6: How would shippers be reimbursed if they pay the IC Tariff?

Please see the suggestion as outlined in the answer for Q5 where Shippers will not have to worry about paying this tariff directly.

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

Please see the answer above to question Q5 where Energia note from previous discussions and argument that RoI gas Shippers are not minded to support a DPO or a Transporter becoming a Shipper in the RoI gas system. Hence Energia have suggested the option of a Lead Shipper (or at least a Shipper) should perform this task and the thoughts of using a DPO or Transporter should be disregarded.

Q8: Which DPO should perform this role?

None as it is argued to be inappropriate for a Transporter to become a Shipper. Instead Energia have suggested a Lead Shipper (or at least a Shipper) should be utilised. Option B should be disregarded as a potential solution option.

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

Yes. If all Shippers first nominate on SNIP, a DPO (the SNIP DPO) should then be tasked to calculate the "excess" needed on the IC and the DPO will advise the "Lead Shipper" what to nominate on the IC on behalf of the NI shipping community (which may be zero on the day).

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

This should be easily achievable as BOTH the NI and RoI Codes MUST basically FIT with the Moffat Administration Agreement (MAA) timings. The same principle of common timings is also being taken into consideration in developing the Single Electricity Market on the Island.

Q11: Should IC code charges be recovered through postalisation?

Yes. As suggested in this reply the most logical operational regime is argued to be that the entire NI Shipping community nominate in the first instance on SNIP and a DPO calculates the "excess" capacity needed over and above that available in SNIP. This "excess" amount is not for any specific party/end user in NI and as such can be considered to be as important as the gas coming into NI through SNIP as it is of the same "benefit" to all of NI. Because of this it is argued all IC charges related to the usage of capacity in IC for the "benefit" of the NI gas community should be postalised.

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

No. If all Shippers first nominate on SNIP, a DPO will calculate the "excess" needed on the IC and the DPO will advise the "Lead Shipper" what to nominate on the IC on behalf of the NI shipping community.

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

Energia does not support Option 3 and propose the "lead Shipper" option as detailed above. If the Lead Shipper concept is found to be unacceptable to the Commission or the NI Gas Community Energia would be more inclined to support Option 2 with some variations. This principle of Shippers booking capacity and not transporters should be held firm at all times for base capacity usage.

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

If the Lead Shipper concept is accepted, and the lead Shipper is already an RoI shipper there should be no need for NIAER to put any arrangements in place with CER/BGE (RoI) – all that will be needed is an appointment agreement for the Lead Shipper which is totally prescriptive and involves not "thinking" on the behalf of the Lead Shipper (in the same way as the MAA requires the Moffat Agent to act almost "mechanically" to information received from Shippers)

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

The costs of dealing in such a regime include IT systems costs, operational costs, etc which could more than likely be estimated. However the largest factor for Shippers in such a regime is likely to be that related to the Risks involved in dealing in such an unduly complex and non-user friendly arrangement where many instances where things can go wrong can be contemplated – costs related to such risks would be extremely difficult to estimate but are thought to be appreciable.

Q16: What obstacles do DPOs see to creating a single TSO?

Not being a DPO Energia did not think it appropriate to answer such a question which is aimed specifically at DPOs. However Energia would venture that "where there is a will there is a way" and would hope in the interest of making life more simple for Shippers that DPOs could find it possible to facilitate a single TSO.

Q17: What contracts will have to be drafted/amended?

This question is assumed to relate to what contracts will have to be drafted/amended in order to facilitate a single TSO. Energia have NO Comment.

Q18: What structure should the TSO take?

A possible structure is one similar to that used by Eirgrid in RoI as the Electricity System TSO.

Q19: How should a TSO be financed?

The TSO should be financed from the postalised tariff which would (i) remove operations costs from the DPOs revenue entitlement from the "pool" of costs that are used to calculate the Postalised Tariff and allocate the costs/revenues of the TSO instead (ii) pay all TSOs costs in line with budget from the revenues obtained from the Postalised Tariff.

Q20: Who should be the TSO?

To date the 3 TSOs in NI appear to have been unwilling to agree on a single TSO as it appears none is prepared to allow another to control/operate its assets. Due to this, and from a logical point of view, Energia suggests that the TSO should not be any of the DPOs (BGE (NI) (or (RoI)), PNG or PTL) but instead an entity appointed by industry in consultation with the DPOs who is independent and completely separate from the 3 DPOs but who has the relevant experience and know-how, and other than being a TSO has not other interests in the NI (or RoI) gas market.

Q21: Do parties want to see an interruptible service continue?

It is argued that an Interruptible Service is only appropriate where there is a shortage of capacity so as to maximise the useful "benefit" of the assets that exist. Hence while there is only SNIP supplying the NI Gas Market, and where SNIP capacity is insufficient to meet NI Consumer demand, then it appears appropriate to have an interruptible service. However where there is a surplus of capacity in the market, as would be the case when the SN Interconnector is completed, there is no argument to justify an interruptible product as the likelihood of being interrupted is negligible. In such a situation an interruptible product risks undermining the firm capacity product.

However even though there is little or no justification for an interruptible service in a regime where there is surplus capacity available it is widely expected there will be a Regulation issued from the EU insisting that Transporters offer an Interruptible Service (regardless of the arguments raised above). Hence the critical thing is to ensure that the Firm Capacity product is NOT undermined by ensuring that the pricing of the interruptible product is set at such a level so as to reflect the real probability of interruption and to encourage users to utilise the firm product. (Please see Energia's response to Q22 below).

Q22: What charge do consultees think appropriate for an interruptible service?

Any interruptible capacity service should be charged for at a rate that reflects the probability of being interrupted. Until the SN interconnector is completed there is an argument for the service to be charged at a discount to the full charge of the firm service. However when the SN Interconnetor is complete and the possibility of being interrupted is thereafter negligible, if an interruptible service must be offered it should be priced at a level so as to ensure there is not a flight from the firm service - if parties were financially incentivised not to book the firm service, the firm service would be undermined and the tariff for same would increase dramatically per unit.

Because of its definition Interruptible Capacity is typically sold at a lower rate than firm. However after the SN Interconnector is complete as the likelihood of interruption is extremely small (indeed it is as likely to interrupt firm capacity as interruptible) the level of discount should either be zero or something very small. Such pricing would reflect the true probability of interruption. It is therefore suggested that an appropriate charge for interruptible capacity in a regime where the likelihood of interruption is remote should be at a maximum discount of 2% from the cost of firm capacity, with NO Discount off the commodity charge. Energia's preference would be to have no discount at all until such time as capacity in NI becomes restricted again (by virtue of growth in demand) and there is a genuine need for an interruptible product in order to maximise system usage and to allow parties access to capacity most of the time.

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

Any interruptible capacity service should be charged for at a rate that reflects the probability of being interrupted. Charging the commodity charge, even assuming a 100% lead factor, is thought not to appropriately reflect the true **value** of the service given the likelihood of interruption being so small. Energia does not support the idea of this charging mechanism and instead support the idea as outlined in the answer to Q22 above.

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General Comments related to the paper:

(1) **NI Network**:

The paper refers to gas flowing "into the NI Network at Gormanston" and at another point refers to "a new Entry point to NI at Gormanston". As the registered entity of Bord Gais in Northern Ireland is understood to be "BGE (NI)" it is assumed they are the operator of the BGE Network in NI. However the registered entity of Bord Gais in Republic of Ireland (ROI) is understood to be "Bord Gais Eireann" (or the pipeline owner/operator will be named "Bord Gais Networks") and it is this entity who own and operate BGE pipeline assets in ROI.

As the SN pipeline is located physically partially in NI and partially in ROI the ability of either of these separate legal entities to legally operate the full SN pipeline is questioned – a valve at the jurisdictional boundary might make this easier but it is understood that no such valve is planned for. It is also argued there are potentially regulatory, tax, and other jurisdictional and other implications which may need to be addressed.

While the argument that the NI System Users are paying for the asset should mean the SN Interconnector should form part of the "NI Network" it may not be strictly correct to say this – the issue may have to be addressed in a different manner. Energia request NIAER to advise if they have had Legal Opinion on this matter and whether the Regulator in ROI, or the DMNCR or DETNI have a view on the issue? Energia suggests that part of a possible option is to have a deemed Entry Point at the jurisdiction boundary regardless of from what jurisdiction the full costs of the interconnector are recouped.

This may be considered a trivial point by many but it is argued to be better to get peoples impressions of the situation correct as early as possible.

(2) **Single All-Island Gas Tariffing Regime**:

The paper refers to "the probability of a single all-island gas tariffing regime in the future". While there is possibly an argument to suggest that the ROI and NI markets could have a common gas balancing regime once the SN Inter-connector is finalised and operational, Energia would find it difficult to support a move to a common single all island gas tariffing regime. This is because there is the potential for costs on one jurisdiction to be recouped from another. There is also the further complication that some of the costs attributable to one regime might be governement/regulator approved "extra" costs such as Public Service Obligations (PSOs) and it is thought inappropriate to have these recouped from another jurisdiction.

(3) **Point-to-Point regime Vs Exit Regime Vs "Entry-Exit" Regime**:

In considering any regime for the operation of a gas network Energia suggests one cannot chose to ignore the stated preference of the EU. The EU's preference is for an Entry-Exit Regime. As such neither of the options discussed in this paper comply with the EU preferred regime, which it is understood it will be mandatory in the next few years to comply with.

Anything other than Entry-Exit must be considered to be a temporary arrangement until such time as the Regulator brings about an Entry/Exit Regime. Energia suggests this may be a waste of time in light of the impending EU ruling and as such suggest it may be better e to begin discussions on an Entry/Exit regime for NI.

(4) **Irish Inter-connector (IC)**-

The paper refers to the fact that the "Irish Inter-connector (IC)" would "facilitate the flow of gas in two directions". It is not clear what interconnector this refers to – the SN or SNIP??

Assuming it means the "SN Interconnector" Energia suggests that there is substantial logic and argument for the expense of facilitating SN Interconnector flows from South-to-North. This is due to the fact that SNIP is anticipated to be completely full on occasions and thus NI will need access to another source of capacity.

However Energia does not see any scenario where North-to-South flows would be NEEDED (where End Users in ROI would "benefit" from the gas flows) due to the surplus of capacity available on IC1 and IC2 to Moffat, and the fact that there are indigenous flows from Inch and further flows expected from Corrib. Hence Energia suggests that a more prudent approach might be to delay any expenditure which may be thought necessary to facilitate North-to-South flows on the SN Interconnector for the foreseeable future until such time are there are strong argument to have the infrastructure installed and someone is prepared to pay extra for the facility.

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Should NIAER or OFREG have any queries in relation to any of the points raised in this response Energia would be pleased to clarify such issues, and if it be NIAER's or OFREG's wish to meet with Energia to discuss the issues Energia would be happy to facilitate such a meeting.

Yours sincerely,

Derek Russell

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Energia