VIRIDIAN

Energia Energy Supply Ltd
(Trading as "Energia")
Energia House,
62 New Forge Lane
Belfast BT9 5NF

2nd June 2006

Mr. Brian McHugh
Gas Section
Northern Ireland Authority for Energy Regulation
Queens House, 14 Queen Street,
Belfast BT1 6ER.

***Ref*: NIAER Consultation on "Regulation (EC) No 1775/2005 – Impact on Northern Irelands Gas Transmission Network" dated May 2006.**

Dear Brian,

Please see below Energia's minor comments in relation to the issue referred to above.

***Clause 2.1 - Interruptible Capacity*:**

***CONFIDENTIAL INFORMATION: The Authority and Ofreg are requested to treat the comments detailed in this Clause 2.1 below (wording in italics) as confidential, and are further requested not publish such comments without Energia's prior written approval*.**

The paper outlines that the pricing of interruptible capacity in GB is priced at zero for capacity. It is true that this has been the case to date, but the regulator (Ofgem) is not happy with this arrangement as he believes some parties are benefiting from costs levied on others. To amend this perceived inequality, OFGEM as part of its Exit Reform proposals are proposing to scrap the interruptible capacity product as it has existed to date and to only have firm capacity, where both capacity and commodity charges will apply. They are however proposing to offer an interruptible service only on a day-ahead basis, which of course is not ideal for those parties who wish to have a degree of advance certainty in regards to access to capacity (for planning and budgeting purposes). The pricing of this day-ahead interruptible product has not been discussed to date. Ofgem believes these new proposals are fairer for all concerned. Due to the above it is kindly suggested that the regime existing as of today in GB should not be used as a justification for continuing the regime used in NI.

Rather than answering a question relating to the whether the pricing methodology used for the interruptible service in NI is appropriate a more important issue is suggested to look at the methodology used for issuing and using interruptible capacity. The current interruptible capacity product available in NI may not be in compliance with the intent of the Regulation and as such may need amendment. This is due to a number of reasons, one of which is related to the fact that the roles of System Operator and Supplier in terms of Phoenix have not been separated.

Currently it appears a Shipper cannot request to purchase Interruptible capacity in NI – it appears it can only gain access to interruptible capacity if the End User has been deemed by Phoenix (which part of PNG is unclear) to be an "interruptible" site - if Phoenix (which part of PNG is unclear) deem to site to be "firm" then you cannot buy interruptible capacity regardless of whether *you want it or not. The "criteria" used by Phoenix to decide if a site is interruptible or not, is unknown and not understood to be publicly available. As there are no known capacity restriction areas in the Phoenix system, the "criteria" used cannot be criteria determined by Phoenix as System Operator for its use and benefit where there are strictly operational constraints. Thus it appears that the "criteria" are of a commercial nature determined by Phoenix as gas Supplier for its use when the price of gas has gone too high, enabling them to interrupt the supply to their customers so as to protect itself from commercial exposure. This apparent criteria for determining whether an end user can avail of interruptible capacity or not Energia suggests may perhaps be contrary to the intent of the Regulation. A more formalised, more structured, less commercially driven approach to access to interruptible capacity which is independent from commercial supplier considerations should be devised and implemented.*

It is Energias view and experience that more customers in NI would wish to have interruptible capacity than have access to it today but to date it appears, have not been allowed move away from the firm product. Hence Energia believes more work should be carried out in this regard.

To answer the question in relation to the pricing of the interruptible service, it is apparent for most of the last 10 years or so that interruptible customers have benefited from cheaper capacity while at the same time essentially having a firm capacity service as little or no interruptions occurred in the early years. This has all changed in the last 2 years or so with the increases in gas prices that have occurred, and now interruptible customers can no longer rely on not being interrupted. This was particularly noted during the winter months of 2005/06 where most interruptible customers appear to have been interrupted almost to their maximum limits. Energia suggests that an analysis should be performed to determine at what number of days of interruption should there be no capacity charge – this may be in the 45 to 60 days range (or somewhere else?). Following this, the rules in relation to charging for capacity should reflect the probability of interruption on a pro-rata basis, such that a person who is interrupted for say 45 days in a year pays substantially less than a person who is interrupted for only 3 days. This, Energia suggests, appears to be fair and equitable.

Short term access to Firm capacity – Clause 2.2:

Energia agrees that one of the benefits of short term capacity is to facilitate the use of gas by parties whose use is potentially limited to less than a year (e.g. milk processing, sugar companies, etc), and also parties who may wish to avail of seasonal variations in fuel prices. However there is also the benefit to shippers/suppliers in allowing them to profile their capacity bookings so as to more efficiently utilise the system, and hopefully reduce the capacity costs to their customers (should be cheaper than simply booking a flat 12 months strip) – this flexibility is of particular benefit to shippers/suppliers with a smaller number of customers compared to a large incumbent as it allows such shipper/supplier to offset some of the major benefits the incumbent has by virtue of its portfolio size and diversity, and thus create a more level playing field in the gas supply market. Such flexibility should also encourage new suppliers into the market as it reduces their long term risk, commitments and exposure, with hopefully the knock on effect of introducing more competition to the marketplace and the benefits it brings.
Because of this Energia would strongly support making short-term capacity available to the marketplace in NI. Seasonal pricing related to same appears logical if there are material seasonal variations in gas system usage by end users.

On-Line based information – Clause 2.3:

2.3.1 Capacity: Shippers need up to date information in order to assist their planning processes. In the NI situation it is agreed that a real-time web-based system is probably not called for in the initial stages of market opening however it should be possible for the

System Operators (PTL, Phoenix and BGE as appropriate) to update their web pages when there has been a change in the capacity bookings – this may be once a month, once a week or once a day. The system operators should also facilitate communication from shippers/suppliers seeking capacity information via phone calls on an ad-hoc basis.

2.3.2 – Balancing Status: The hourly details that BGE provide to shippers on the NWP (which is assumed to be the same as BGE provide in the ROI on their "GTMS" system there) should be made available by all system operators, on all gas systems, to all shippers/suppliers.
One issue around the information provided by BGE is that it is only supplied hourly for larger customers. It is strongly suggested that a very useful extension of this service would be where they do not provide such data on a site specific basis they should provide estimated data of the balancing situation of each shipper/supplier in terms of its aggregate DM sector customers and separately in aggregate for their NDM customers.

Secondary Trading of Capacity – Clause 2.4:

In order to reduce costs for end users a flexible regime is needed, which should facilitate down to one days worth of capacity trading on either a day ahead or within-day basis. This will have the effect of optimising the usage of booked system capacity, which should reduce capacity costs on end users. Energia does not believe it is in anyone's interest to burden the gas community at present with excessive IT costs in order to make this service available but further in-depth discussion should take place with industry in an attempt to seek a mechanism to facilitate such secondary capacity trading but without necessitating high cost IT systems at this time. If such discussion does not produce a consensus result which allows such trades to take place then perhaps the IT systems route will have to be looked at again.

****

Priorities: In order to assist Ofreg in its work in relation to the implementation of EC 1775 and the issues raised in the consultation paper it is suggested that the order of priority for Ofreg should be as detailed below;

(i) Short term access to firm capacity – major priority – must have.
(ii) secondary capacity trading service down to a day and within-day
(iii) access to information on a more prompt basis
(iv) access to interruptible capacity service.

****

Should Ofreg have any queries in relation to the issues raised in this paper Viridian would be happy to answer any queries or meet to explain its thoughts.

Yours sincerely,

Derek Russell

Derek Russell
Commercial Development Manager,
Energia