
PTL Response to CAG “Draft conclusions on the options for the Gas Operational Regime, 20 October 2008”

Summary

This response is on behalf of both Premier Transmission Ltd (“PTL”) and Belfast Gas Transmission Ltd (“BGTL”).

PTL and BGTL will give their full support to changes that protect the legitimate interests of its funders and give clear demonstrable benefits to NI consumers.

Regarding our funders, PTL and BGTL will be required to notify and gain approval from its controlling creditor prior to any change to financial, commercial and operational arrangements. The cost and the potential time implications of this process must be accommodated within the CAG workstream.

Regarding the demonstrable benefits, PTL are yet to be convinced that there are material monetary savings to be gained for NI consumers in the operational changes proposed. To put the latest estimates in context, mutualisation of the Belfast Gas Transmission Pipeline will produce more savings to consumers in one year than the potential full life savings of single system operation. It is also unclear how any savings might transfer into reduced tariffs for Northern Ireland consumers.

However PTL do recognise that single system operation with a single network code is strategically desirable. Furthermore, potential benefits such as increased competition, an improved investment environment and increased security of supply are undoubtedly a beneficial outcome of CAG. Being qualitative, these benefits may not be fully factored into the cost benefit analysis upon which we make our current judgement. Therefore we continue to offer the CAG process support and will continue to work with Regulatory Authorities and industry to meet the desired outcome albeit with a focus on the interests of NI consumers.

All-Island System Operation Functions

PTL would note that Regulatory Authorities are proposing functions to be carried out by the System Operator are largely commercial and as such, with the exception of system balancing, have very little implication on the “safety, reliability and integrity” elements overarching the goals for the project. PTL would agree with this selection of functions but would note that balancing is a safety activity which is enshrined in our Safety Case – delegation of the balancing activity may need more careful consideration, but we touch on this further in our response to options for system operation.

PTL would also agree with the functions which are suggested to be co-ordinated on an all-island basis. Planning and development and scheduling of maintenance are co-ordinated between operators at present, albeit through prudence rather than formal arrangement.

Of the functions “requiring further scoping and discussion”, PTL would offer opinion on four of these. PTL believe that management of emergencies is and should continue to be co-ordinated between the jurisdictions. However, because of the different legislation north and south and because of potential political dimension and the need for government involvement in National Gas Supply Emergencies we believe there needs to be a Network Emergency Co-Ordinator designated for each jurisdiction.

PTL believe that metering and the administration of gas quality and safety should remain functions of the asset owner but suggest the asset owners agree to homogenous standards which are in any case likely to be stipulated within the code.

Regarding the management of financial security policy we would like to reinforce the point that this is an area which our funders will take a key interest and PTL cannot accept any reduction in risk beyond the current arrangements in place.

Options for System Operation

PTL consider that the any loss of commercial and operational control of its assets is very serious development which has the potential to increase risk, but will certainly reduce our ability to control risk and influence the commercial and physical operation of our assets.

PTL therefore takes a prudent and cautious view of any development of an all Island System Operator. Any of the proposals suggested in this paper do not yet appear to provide sufficient comfort to PTL that we will have at least the same levels of influence of the operational and commercial arrangements affecting our assets, revenue stream and service to shippers to Northern Ireland.

Of the two options the Regulatory Authorities seem minded to review in more depth:-

SSP Option

PTL understand the SSP option to be a continuation of the existing arrangements in that PTL continue to be accountable for safe and reliable operation of our assets but outsource the actual activity to a competent service provider. The scope of the contract would perhaps extend to cover long term management of transportation arrangements, capacity transfer and congestion management. However the issue of concern that PTL express is that we would be obliged to enter into a perennial contract with the service provider. Under this scenario, PTL would remain accountable but undoubtedly lose a certain element of control and influence.

For this structure to be acceptable to PTL, we would require that the SSP Function be tendered on a medium term duration, possibly five to eight years. PTL note that there is risk involved in migrating control rooms but these risks are well understood and manageable and are likely to deliver the most cost effective service delivery. Competition is more effective than regulation.

Of further note, the two previous contractual relationships PTL have had with service providers (National Grid and BGE) to deliver operating services have both been carried out by existing control rooms and therefore at marginal cost. PTL would note that the arrangements outlined are likely to lead to an increase in cost for NI customers.

TSO Option

PTL understand the TSO option to be different to existing arrangements in that the TSO would become licensed for those activities relating to operation and under GSMR would have to submit and have accepted their own Safety Case. Accountability for operation would transfer out of the respective asset owners Safety Cases into that of the TSO. There does not appear to be a precedent for this structure and certainly none in the UK gas legislative context. PTL would caution that there are likely to be areas of overlap where there can be no clear definition of the accountability being the owner or the operator. However we would note that if accountabilities can be transferred then this structure could address the concerns we would have with an SSP outline above. Governance arrangements underlying the TSO would then become key but a solution may exist whereby asset owners enter into the JV on an equal representation basis.

PTL would require that both the SSP and a TSO JV option be addressed by a full risk assessment carried out by an independent authority and involving asset owners, operators and each jurisdiction's Health & Safety Authorities.

Implementation of a new SO will require large upheaval. It could possibly be approached on a staged basis. However the ultimate structure of the SO should not be defined by what currently exists. We should be confident that the market will deliver a solution to whatever structure is preferred.

Finally, whether it be the SSP or single TSO option which is chosen, PTL believe that independence is essential to provide confidence to asset owners and shippers that any arrangements will be implemented in a fair and transparent way.

Again, PTL will be required to notify and gain approval from its financiers prior to any change to our current financial, commercial and operational arrangements. We believe the correct timing for this notification and approval is when a clearer cost picture of the likely arrangements options has been developed.

Questions

Q1. Which options for the CAG SO delivers the objectives of the CAG most effectively?

It is difficult to make an informed decision about the relative merits of each option without further analysis of the licence, legal, and cost implications. We would expect a

detailed risk assessment is carried out to consider, the H&S, operational, legal and commercial implications each option.

Q2 - of the remaining options the single TSO and SSP, which do you prefer.

The SSP appears to resemble our existing arrangements, in an all island context; however it does not appear to have the usual commercial levers which enable effective commercial control. The JV option would appear to allow PTL continued influence; however we would need to understand the licence, legal implications and be assured of equal representation.

Q3 – Which of the remaining options best meet the criteria set out in section 2.

These criteria are very generic, and appear to be in the all island context, we would want to see the criteria applied to Northern Ireland Consumers and Shippers, and would request that a proper analysis of this is carried out before any further analysis can take place.

Q4 – Which of the remaining options best:

a) Provide stability and certainty of market structure.

Whilst recognising that it would not deliver the desired benefits of CAG, retaining existing structures is the most stable and certain of market structures.

b) Allow flexibility for changing customer needs and market environment.

We are not aware of any “groundswell movement” from shippers for change. We believe that shippers and consumers priority is to minimise cost of a safe reliable transportation service, which our business model has very successfully achieved.

c) Allows for sufficient Regulatory control for Costs.

Regulatory control of costs not as effective as competitively tendering the TSO services we require. PTL have achieved a cost in the market which should be the counterfactual for NI consumers.

Q5 – Do the different Options ensure that the relevant health and safety authorities can enforce their health and safety obligations.

Safety and reliability of the pipelines we own and operate is the foremost priority for PTL. Our management team are responsible and accountable but they currently have complete control. Any loss of control or separation of the responsibility creates health and safety risks which must be carefully assessed. Our understanding is that H&S Legislation in the UK currently places ultimate responsibility on the owner, who therefore must have significant control of any TSO.

Q6 Are there any variations of the options that could work better?

We believe sufficient options have been considered, but as stated previously we would not yet sign on to the cost benefit analysis and would strongly urge that a risk assessment be carried out.

Q7 Is there anything at all in the construction of the CAG operating model that we have missed, or that you think is material and requires further consideration by the RAs?

The operating models described, raise more questions than answers at this stage, and should be the subject to further, rigorous cost benefit analysis. The overall justification for this project should be reviewed in light of the sharply downward revision of benefits, and escalating costs of implementation.

We believe the project should also address the cost of capital of gas transmission assets where clear and significant costs benefits have been achieved by our “Mutual Model”, and could be applied to other transmission assets to provide much more substantial benefits.