



BGE (NI) Response to NIAUR Paper

Implementing the European Gas Regulation (EC) 715/2009 in Northern Ireland

1.0 Introduction

BGE (NI) as a gas conveyance licence holder in NI welcomes the opportunity to submit comments on the above paper and look forward to working with NIAUR in introducing arrangements to ensure compliance with EU legislation as soon as practicable in Northern Ireland.

BGE (NI) believes that the introduction of an Entry-Exit regime in Northern Ireland and will provide greater flexibility for Shippers and aid the development of the market in Northern Ireland. The implementation of the various remaining elements of EC715 will also make the level of service available to Shippers in Northern Ireland more consistent with that available currently in GB and Rol.

BGE (NI) believe that the key objectives of the project to implement EC715/2009 in NI should include that:

- it will be done in a timely and cost effective manner;
- it will minimise the cost impact for customers; and
- it will allow the TSO's to recover all implementation costs.

For ease of review, our response follows the structure of the consultation paper and we have answered the questions posed by the paper in tabular form in Appendix 1.

2.0 Section 1 & 2 Background and Context

We welcome the approach whereby NIAUR wish to proceed by means of an agreed plan with the TSOs and we look forward to progressing same.

We look forward to the finalisation of a project plan which must address the key issue of resource allocation.

One of the lessons learned from the recent CAG project and Infringements projects was the importance of proper governance from the outset, and to this end BGE (NI)

recommend that a dedicated TSO Steering Committee be set up with the objective of monitoring all aspects of project delivery and hopefully representing a single voice for the TSOs as the project progresses.

Licensing

BGE (NI) believe that the licensing workstream will be an important aspect of the project.

BGE (NI) also believe that compliance goals from a licensing perspective should be delivered quickly and with the lowest cost.

3.0 Section 3 – Single System Operation in NI

NIAUR have defined single system operation in NI as comprising of 4 elements:

1. A single transmission code
2. A single IT system
3. A single TSO team for cross border issues
4. A single control room to manage gas flows

BGE (NI) agree that Shippers should contract for services via a single contractual framework i.e. Code. The ultimate objective must be to make it easier for Shippers to compete by having a single Code for the whole NI system.

BGE (NI) further agree that the Code should be implemented via a single IT system. The gas flows on the networks will be managed in accordance with the single Code and the associated information exchanges between the Shippers and TSO's managed via the single IT system.

BGE (NI) supports the development of a streamlined set of Entry/Exit arrangements for gas transportation in NI which deliver gas regulation compliance, enhanced level of service for Shippers, and allow the TSO's fully recover costs of development.

System Operation Functions

NIAUR have listed a set of core functions to be performed to deliver single system operation. This list is based on the initial list of functions drawn up by the RA's in 2008 and provided during CAG.

During the CAG project this initial list was further developed by the TSOs, in conjunction with the RA's and industry, and further development of this list will also be required for an NI EC715 project.

This expanded list of Core Transportation Functions agreed between the TSOs as part of CAG is included in Appendix 2.

BGE (NI) broadly agree with the list of core functions in the consultation paper and further clarification of exactly what we believe each function entails is provided in Appendix 2. BGE (NI) suggest that, as this is a more comprehensive list of core functions required to deliver transportation services as agreed by the TSO's under CAG, this should be the basis for further development for an NI only EC715 implementation project.

BGE (NI) suggest that once the detailed scope of the NI EC715 project is clear, the list of functions in Appendix 2 be revisited and further clarified and developed in light of this.

On the list of functions BGE (NI) make the following initial comments;

Monitoring gas quality

Gas quality specifications will be included in the Code, at present there is no specific equipment in NI for monitoring gas quality in NI.

Long-term management of the system

Please see Appendix 2 for a further development of this function.

Day-to-day operations

Please see Appendix 2 for a further development of this function.

Balancing of the system

Suggest balancing arrangements be defined in the Code. Please see Appendix 2 for a further development of this function.

Capacity trading

Suggest capacity trading arrangements be defined in the Code. Please see Appendix 2 for a further development of this function

Congestion management

Suggest capacity congestion management arrangements be defined in the Code. There are different congestion management arrangements in the NI codes today and this will need to be harmonised for a single code BGE(NI) recommend that

this should be consistent with EC Congestion Management Procedures which are due to come into force in October, 2013. This will amend the existing Annex to gas regulation (EC) 715/2009.

Measurement and end-of-day settlement and allocation

Measurement will be done by meter assets owned by the individual TSOs. End of day settlement and allocation will be outlined in the Code. The party doing end of day settlement will require access to meter data. Suggest responsibility for meter assets remain with the asset owner

Administration of standards

Standards operation and maintenance are a TSO responsibility today, suggest this should continue

Connection policy

The connection policies in NI are already harmonised today. A party wishing to connect to a TSOs/AOs network will need to contract with that TSO/AO

Provision of consolidated market reports

Further clarification of this will be required. Please see Appendix 2 for a further development of this function.

Administration of the financial security (FS) policy

Suggest FS arrangements will be outlined in the Code or be a document pursuant to the code. Administration will be in accordance with these rules

Interaction with European work streams

Further clarification of this will be required. Please see Appendix 2 for a further development of this function.

Single Code

The development of an Entry Exit Code in NI is a requirement of the EU gas regulation. Under CAG it was proposed that the existing RoI unified Transmission and Distribution code be the basis for the island wide code. The work done during CAG concluded that the basis for an All Island Code should be the existing Entry Exit Code in use on the Island.

BGE (NI) suggest that this is the sensible approach for a NI only project also, as it would build on the thousands of man hours work done during CAG, and facilitate further work on CAG in the future.

As an aside, we believe that NIAUR should consider that in an NI only approach there will be a requirement for additional work on the development of a transmission - distribution interface.

The new Entry Exit Code will need to be comprehensive and BGE (NI) suggest it include provisions for the areas listed in Appendix 3

BGE (NI) recommend that in order to minimise the cost impact for consumers that, as the project progresses, full cognisance of the ENTSOG Codes already developed and those under development to be taken into consideration when developing the NI Entry Exit Code. While it may be possible to include some elements of the ENTSOG codes with the introduction of Entry Exit, and a pragmatic approach would be to keep this under review, the initial priority being to get Entry Exit implemented in NI as soon as practical.

Single IT System

As part of CAG, the TSOs analysed the IT requirements of systemising the Code and concluded that, as the CAG Code was to be based to a large extent on the ROI Entry Exit Code, and since this Code had already been systemised on GTMS, therefore GTMS was the TSO's preferred platform for systemising the CAG Code.

The NI EC715 compliant Code has yet to be developed but it is clear that the existing point to point Codes and associated IT systems are now outdated and will need to be replaced. It is our opinion (based on BGE work to move to Entry Exit in ROI) that a new Code cannot be implemented without IT systems changes. In fact, in this regard we believe Entry Exit will require one NI IT System.

A key objective should be to implement an IT solution which is the most cost effective solution and the one which has the lowest risk of delay to the project

We believe that there are 3 primary options available in relation to IT systems;

1. Modify one of the existing IT systems - however the feasibility of this approach would need to be determined (especially from a costs and practicality perspective – costs here would undoubtedly become 'sunk' in a very short time frame)
2. Adopt a system based on GTMS Entry Exit in ROI
3. Develop a new system – most expensive option and one that would add to project risks and put pressure on project timelines

Should it be decided that the existing ROI Entry Exit Code might be the basis for the NI EC715 compliant code (as this system already systemises an Entry Exit code) it might be considered logical that this be the most cost effective IT platform to use. It would therefore minimise the cost impact for consumers. This is a matter that we would propose key stakeholder engagement on as a matter of urgency.

4.0 Section 4 – Overview of Single System Operation in CAG

BGE(UK) agree that a lot of work was done under CAG on developing the options for the structure for single system operation, and the RAs and TSOs concluded, in conjunction with industry, that a Contractual Joint Venture (CJV) was the best option.

The CJV model builds on the TSO's existing organisational structures and expertise and promotes a collaborative approach between the TSOs and industry.

A CJV model has been used successfully in the Single Electricity Market for a number of years now. BGE (NI) believe that the rationale for choosing a CJV model for CAG continues to apply to an NI only project.

As requested, we make the following comments in relation to the proposed assessment criteria.

Efficiency

We believe that the agreement that the CJV model is most stable still remains. As determined during the past CAG work it was deemed to be more efficient than the Single TSO model.

The Single TSO Model is expensive and is unlikely to be the most efficient model. It will require the development of a new licensing regime with associated time and cost implications. Inefficiencies will be introduced in the splitting of ownership and operation, as the operator who is not the owner will have no incentive to maximise the life of the asset. There will also be a rather detailed and complex operating agreement to be developed between the Asset Owners and the new single TSO. These will be separate legal entities where objectives may not align in many areas and this will introduce inefficiencies.

Cost effectiveness

The CJV model will be simpler to develop, put in place and operate. As such we believe that it is more cost effective.

The main advantage put forward under the cost effectiveness assessment criteria for the single TSO is the avoidance of ongoing costs associated with co-ordinating multiple TSOs. As discussed above, a single TSO model would inevitably involve significant on-going costs associated with co-ordination between the Asset Owners and the single TSO. As this interface will be quite complex, the resources required to manage this interface will be significantly more than a CJV model along the lines proposed by BGE(UK) during CAG.

Customer Friendly

The CJV model makes the existing TSO interfaces more streamlined with minimum fuss from a Shipper perspective.

As there are multiple interfaces for Shippers between the TSO and Asset Owner, this clearly makes the Single TSO Model less Shipper friendly. The Shipper may have to interface with the Asset Owner as well as the Single TSO and this increases the level of complexity in the regime.

Transparent

In a CJV model as proposed by BGE (NI) during CAG the roles and responsibilities of each party are clearly outlined in the CJV agreement, which will be approved by the regulatory authority and as such will be fully transparent.

The NIAUR paper references the requirement for a clear separation of responsibilities between Asset Owners and the Single TSO's. A single TSO model, therefore is in practice very difficult to achieve and is inherently less transparent, as the interfaces are extremely difficult to define and understand.

Consistent with EU Legislation

The CJV Model will be the one likely to be agreed for the implementation of the Gas Target Model, and this can be seen to happening already in CJV type agreements being used between multiple TSO's across Europe for implementation of IT platforms to facilitate capacity bundling at interconnection points.

Indeed such CJV arrangements are contemplated by the Gas Regulation in article 17(g).

The single TSO model is not being adopted in any other jurisdiction for gas regulation compliance that we are aware of.

During CAG BGE (NI) suggested two further assessment criteria which we believe are still applicable, as follows:

Risk

The CJV model proposed by BGE (NI) during CAG minimises the risks associated with the move to and implementation of single system operation as it builds on existing already proven arrangements. In this model the responsibilities and obligations of the parties are clear and this minimises the risk for all industry stakeholders.

Timing

The CJV model proposed by BGE (NI) during CAG facilitates a more timely implementation as it minimises the disturbance to existing arrangements and does not require significant organisational change for either TSO. Any proposal involving significant organisational change will inevitably take significantly longer to implement.

Control Room considerations

We note reference to issues in relation to the control room function. BGE (NI) agree this is core to a well functioning system and believe that the service provided by BGN to all of the TSOs on the Island North and South is a key element in the well functioning operational regimes which exist North and South today.

BGE (NI) recommend that there be no deterioration in the level of service to customers in NI the move to Entry Exit in NI and that no new additional risks be introduced by a new fragmented approach to the delivery of this function. Indeed the cost of introducing a new control room in NI would far outweigh the benefits (if any), would introduce new risks, and result in unnecessary additional costs for gas consumers.

This not insignificant cost would in our opinion not be justified for a network such as that in NI comprising 421km of pipelines (161km owned by MEL and 260km owned by BGE (NI)). Single Control Rooms usually cover networks many times this size typically of the order of tens of thousands of km.

Commentary on CJV and Single TSO Model

In relation to the option for a Single TSO model, the rationale for discounting this option under CAG was that having a third party operate pipeline assets would introduce some new complexities including complexities from a financial/taxation perspective.

The primary taxation issue of concern includes potential treatment of system operation arrangements as an embedded Lease under IFRS accounting standards. This could result in requirements to derecognise certain assets on a TSO's Balance Sheet with commercial consequences to include;

- impact on existing lending arrangements;
- impact on covenant compliance;
- cost and availability of future finance;
- impact on credit rating.

In general, the more administrative in nature and function the CJV is, the less likely it is to fall foul of these complex issues. We believe therefore that it is fair to say that the BGN/Gaslink proposal for the CJV structure under CAG is less risky from this point of view and is not anticipated to give rise to problems in relation to the structure and accounting for it.

BGE (NI) therefore suggest that the same rationale will apply in a NI only EC715 compliance project, and that a CJV along the lines proposed by BGE(UK) under CAG remains the best solution.

5.0 Section 5 Gas Regulation Compliance

BGE (NI) are, and have always been, keen to progress arrangements for full gas regulation compliance in NI.

ENTSOG Codes

BGE (NI) believe that any project to implement the Gas Regulation in NI should encompass all aspects of the regulation including the ENTSOG Codes as recently developed and those under development.

BGE (NI) note the approach proposed by NIAUR to concentrate on implementation of Entry Exit in NI in the first instance, and then to subsequently implement the ENTSOG

Codes. BGE (NI) have been keen for some time to implement all EC715 requirements as soon as practicable.

BGE (NI) suggest that under such a proposed phased approach, the work done in Phase 1 in implementing Entry Exit should be progressed taking account of the work to be done in Phase 2, to implement the ENTSG Codes (i.e. work on Phase 1 whilst planning Phase 2).

This would allow a timely implementation of Entry Exit which is a requirement for the ENTSG codes, and this we believe would be the most pragmatic approach to the NI EC715 project, as it allows a scope of work to be finalised, a programme developed and resources applied to deliver this in phase 1. The alternative would be to embark on a project without a clear scope of work with the associated risks to delivering in a timely manner.

BGE (NI) agree that legacy transportation arrangements between BGE (UK) and PTL in Scotland (which have been in existence for nearly two decades now) will need to be modified to facilitate EU compliance – these arrangements were framed in a time before much of the current EU internal gas market legislation was enacted.

6.0 Section 6 Timetable for Implementation and Next Steps

BGE (NI) note that it is NIAUR's intention to develop a detailed project work plan and associated timetable and further note that NIAUR have identified that a key element of the workplan will be to agree costs with the TSO's for the project.

In order to deliver the gas regulation compliance project, work should commence on Single Code and IT system development in parallel with the work on the development of an operational framework.

We believe that NIAUR should not forget nor under-estimate that work that will be required to develop a new tariffing regime to work with the Entry Exit Code. Early engagement on this is key as this may need to synchronise with the PSA processes, which take place during the summer months, to develop new tariffs for the start of the gas year.

BGE (NI) suggest that the project workplan be developed taking into account all industry requirements also, as significant input will be required from Shippers on issues such as code development.

BGE (NI) are keen that the EC715 project in NI progress in a manner which workable for all stakeholders.

As is normal in projects such as this an early emphasis on agreeing the key elements is key to a successful outcome, such elements may include;

- Agreed Project key principles and objectives
- Agreed Project scope and assumptions on scope based on the key principles and objectives
- Agreed programme for delivery of scope of work
- Resources plan for agreed scope and programme
- Agreed mechanism for recovery of costs.

BGE(UK) recommend early engagement on agreeing these key elements and that NIAUR, in accordance with the recent price control decision and section 6.11 of the consultation paper, provide clarity on how development costs will be recovered prior to the commencement of the project.

7.0 Conclusion

BGE (NI) have engaged in discussion with the other NI TSO in the Mutual Energy group (PTL and Belfast Gas Transmission Ltd.) and have agreed to develop project key principles/objectives for consideration by NIAUR and Industry.

There are many areas of potential agreement between the NI TSO's including on project key issues and objectives such as:

- To implement EC715 in NI in a timely and cost effective manner as possible
- That a CJV is still the preferred solution and to build on the work done to date under CAG
- A phased approach which concentrates on implementation of Entry Exit in phase 1 and that ENTSG code development should be kept under review during Phase 2.

We also support the views expressed by industry and the workshop on the 12th February that the key focus of the project should be on developing arrangements to deliver gas regulation compliance as a priority.

In conclusion, we look forward to working with all stakeholders in NI to successfully implement the requirements of EC715 as soon as possible.

APPENDIX 1 - Answer to consultation queries in tabular form

Consultation Questions

Section 3 Moving to single system operation in NI	Q: Have we adequately described what single operation would deliver or are there other elements which would need to be delivered?
	A: BGE (NI) broadly agree with NIAUR's description of single system operation and we are committed to developing arrangements to deliver gas regulation compliance and enhance the service to Shippers in NI
	Q: Do you agree that in the absence of CAG, single system operation would deliver benefits for NI over the current operational regime?
	A: BGE (NI) agree that a single code and IT system delivered via a contractual joint venture (CJV) will deliver benefits for industry participants in NI and improve the service compared to the current regime. Please see section 3.0 of our response.
	Q: Do you agree with the proposed list of system operation functions which would be delivered on a single basis in NI?
	A: BGE (NI) broadly agree with the list of system operation functions and have further developed these in line with work done by the TSO's under CAG. Please see section 3.0 and Appendix 2 of our response.
Section 4 Overview of single system operation in CAG	Q: Are there any other advantages/disadvantages of the single TSO and CJV options which we have not considered?
	A: We have outlined the advantages and disadvantages of the CJV and Single TSO Model using the consultation paper criteria in section 4.0 of our response.
	Q: Do you agree with the criteria proposed to assess the options for single system operation?
	A: BGE (NI) agree with the list of criteria proposed by NIAUR and propose two further criteria that will be necessary to deliver the project successfully; risk and project timing. Please see section 4.0 of our response for further detail
	Q: Do you agree with the assessment of the single system operation models against the criteria?
	A: BGE (NI) agree with the list of assessment criteria, however we differ in some respects on the analysis of the two models against the assessment criteria. Our analysis is included in section 4.0 of our response.
	Q: Which options for single system operation in NI do you prefer and why?
	A: BGE (NI) believe that the optimum solution for structure of single system operation is a contractual joint venture as outlined in section 4.0

	of our response.
	Q: TSO's to include any further thoughts they may have on their CJV models in NI only context
	<p>A: The TSO's believe that the focus for the EC715 implementation project in NI should be on developing arrangements for EU Gas Regulation EC715/2009 compliance as a priority.</p> <p>To this end, following the recent EU stakeholders' workshop the NI TSOs have jointly established a working group to review compliance work streams to implement the requirements of Gas Regulation EC 715/2009. The initial output of this working group will be the development of proposed high level principles/objectives for the project as well as development a basis of determining a structured work program/project milestones for discussion with NIAUR and industry.</p> <p>The NI TSOs will continue work on this process whilst keeping the Utility Regulator informed.</p> <p>With regard to the Contractual Joint Venture (CJV), the NI TSO's under CAG, were of the view that the CJV was the preference for single system operation and propose to review the work done under CAG in an NI only context under the joint working group</p>
	Q: Do you agree with our proposal to implement a single transmission code of operations and a single IT system in NI ?
	A: BGE (NI) agree that a single entry exit code systemised as a single IT system will be a positive development in NI. In fact we believe that it will be very difficult to deliver Code changes of the magnitude to deliver Entry/Exit without IT systems change – we believe that this will have to be one of the first key project milestones to be agreed upon. Please see section 3.0 of our response.
Section 5 Gas regulation compliance proposed scope of work	Q: Are there any other services not mentioned which suppliers require ?
	A: BGE (UK) believe that if EC715 and the associated ENTSG codes are to be fully implemented in NI, that the transportation regime will have a suite of services consistent with other EU regimes and will meet Shipper requirements.
	Q: Do you agree with how we propose to tie in the development of the single code with the EU network code process?
	A: BGE (NI) agree that implementing Entry Exit as Phase 1 and the ENTSG Code as Phase 2 of the Project is the best approach. We believe that ENTSG Code development should be continuously monitored as part of Phase 1 and opportunities (with appropriate risk management) to implement ENTSG Code requirements should be continuously kept under review (perhaps every 3-4 months). IC capacity bundling may be an area where early implementation may be required to ensure there is no delay to NI and ROI implementation. See section 5.0 of our response.

APPENDIX 2 - Transportation Services Core Functions

The Core functions required to deliver the CAG Transportation Services regime agreed by the TSO's were as follows. These are based on the functions listed RA's conclusions paper in Feb 2009 and have been expanded out into specific tasks

- The day to day physical and commercial operation of the Network.
 - Market operations (capacity booking nominations, end-of-day settlement and allocations, capacity trading etc.)
 - Administration of financial security policy(s)
 - Balancing the Network in accordance with the Code, including sale and purchase of balancing and shrinkage gas
 - Administration of invoicing of transportation charges
 - Administration, collection and distribution of energy balancing charges i.e. the balancing disbursement arrangements
 - Administration of metering data
 - Congestion management
- Administration of the Code (including Secretariat to the Single CAG Code Forum)
- Provision and maintenance of appropriate IT systems to deliver a single Shipper interface
- Co-ordination of maintenance activities of the TSO's
- Provision of consolidated market reports (including appropriate EU & RA reporting)
- Interacting with RA's on system operation issues on behalf of all TSO's
- Management and co-ordination of Gas emergencies that may arise as defined in the Code or by way of legislation
- Co-ordination of Long Term Network Development Plans
- Monitoring of gas quality at network Entry points where appropriate
- Such other functions as may be agreed
 - For example common representation at EU fora where possible

These core functions will need to be reviewed for an NI only project and further developed by the TSO's in conjunction with NIAUR and industry.

APPENDIX 3 - The Entry Exit Code

The new Entry Exit Code Code will need to be comprehensive and suggest it include provisions for the following areas:

- Capacity
- Nominations & Allocations
- Balancing
- Gas Point Registration Operation & Meter Data Services
- Gas Quality & Pressure
- System Planning
- Measurement
- Maintenance
- Emergencies
- Congestion Management
- Entry Point Arrangements
- Code Modifications
- Liabilities & Indemnities
- Force Majeure
- Suspension & Termination
- Credit Requirements
- Dispute Resolution
- Delivery of Gas: Title & Risk
- Confidentiality & Data Protection
- Taxes and Duties
- Invoicing and Payment; and
- General Provisions