gaslink
Gas System Operator

COMMENT ON ERGEG PUBLIC CONSULTATION DOCUMENT

ERGEG PRINCIPLES: CAPACITY ALLOCATION AND CONGESTION MANAGEMENT IN NATURAL GAS TRANSMISSION NETWORKS

27th March 2009

Introduction

Gaslink is the independent system operator for the Republic of Ireland (RoI). Gaslink has responsibility for the operation, maintenance and development of both the Bord Gáis Éireann (BGE) transmission and distribution systems serving RoI.

Gaslink is a member of GTE and supports the GTE response to this consultation.

The RoI gas market has links to the GB gas market via two subsea interconnectors, one of which also supplies the Isle of Man (IoM). RoI is also connected to the Northern Ireland gas market via the South-North Pipeline (SNP). The Northern Ireland (NI) gas market is itself connected to the GB gas market via the Scotland Northern Ireland Pipeline (SNIP). Currently, there is a significant initiative underway to integrate the gas markets of RoI and NI under the Combined Arrangements for Gas (CAG) project.

Gaslink welcomes the opportunity to comment on ERGEG's principles for capacity allocation mechanisms (CAM) and congestion management principles (CMP). At a high level, Gaslink is supportive of efforts and initiatives to promote the creation of a single, competitive EU gas market. Gaslink recognises that access to gas transmission infrastructure, particularly at cross border Interconnection Points (IPs), is a crucial issue to be resolved in order to achieve the single EU gas market. However, we have concerns with the detail of some of the ERGEG proposals together with the timing of the ERGEG proposals and the inter-relationship with the forthcoming EU 3rd Package.requirements We set out our concerns in the following paragraphs.

Main Comments

We note the ERGEG statement that the consultation document focuses on CAM and CMP at interconnection points (IPs) between adjacent networks only. We understand that transmission connected industrial loads and gas fired power generation are therefore excluded from the proposals. Similarly, entry points to networks that facilitate the delivery of gas from upstream gas production, storage and LNG are also excluded from consideration. However, Gaslink is concerned that some of the ERGEG proposals will if implemented impact on gas-fired power generators and larger industrial loads, particularly as a result of the proposal to restrict renomination rights of shippers at IPs. This may cause shippers to pass through increased balancing risk exposure to offtakes as a restriction on renominations at an IP may prevent a shipper from responding to a within-day demand change or electricity dispatch notification. Potentially, this proposal will cause concerns in terms of electricity network security of supply in Ireland. In accordance with the CER approved arrangements for operation of the Single Electricity Market in Ireland (north and south) power stations can be dispatched within day and accordingly the right to renominate during the day is key for the effective operation of

gas fired power stations We therefore request ERGEG to carefully reconsider their proposals in this regard.
Gaslink also believes that it is important to recognise the efforts that have been undertaken, to date, by the North West Gas Regional Initiative (NWGRI) in improving arrangements at various IPs in contintental Europe. This work commenced in February 2007 and focussed on three IPs: Bunde Oude/Statenzijl; Blaregnies/Taisineres; and Medelsheim/Obergailbach with the aim of improving the functioning of the IPs, including CAM and CMP. Work has continued and progress has been made and will continue through 2009. Coordination between TSOs, new capacity services and improved transparency have resulted as part of this initiative. We understand and welcome the finalisation of the lessons to be learnt from the mechanisms that have been put in place at these three IPs. We believe that consideration of these lessons by all industry participants will be important and suggest that ERGEG should take account of developments in this area prior to finalising any CAM and CMP proposals.

It is clear that some gas markets have developed at different rates and that some TSOs have developed comprehensive, transparent and appropriate capacity CAM and CMP arrangements. ERGEG should recognise that markets have developed at different rates and that good and sound principles and mechanisms that work well in practice should not be replaced. We believe this is particularly so at IPs where congestion does not exist . The replacement of effective arrangements would incur costs, add complexity and create uncertainty with no tangible benefits for consumers and market players. It may be appropriate therefore for NRAs to be able to give some form of derogation where arrangements are in place and working well. For example, arrangements in place between the RoI and GB gas markets, based on entry/exit principles have been developed on a ticket-to-ride basis where it is not possible for any shipper to hoard capacity as all exit capacity bookings from National Grid must be accompanied by a certificate that is issued when entry capacity is booked from Gaslink. This system works well in practice even though there are some differences in the capacity allocation mechanisms of Gaslink and National Grid.

ERGEG set out a number of principles and suggest changes to the Guidelines annexed to Regulation (EC) 1775/2005. However, it is unclear from the consultation document what timescales are envisaged or proposed for adoption of the revised Guidelines. It is also unclear how the revised Guidelines will be affected by the adoption of the EU 3rd Package. We urge ERGEG to provide clarity in terms of the envisaged timescales and the interaction with the 3rd Package.

The process of consultation, development and implementation under the 3rd Package is extensive and inclusive. However the process set out by ERGEG appears less so even though the implications of its proposals are widespread and significant. We therefore urge ERGEG to develop a clear, transparent consultation process for its proposals and to carefully assess an implementation strategy for any proposals adopted..

The consultation document proposes an approach based upon a ‘tool box’ of mechanisms to be implemented. It is proposed that NRAs decide on what specific elements of the tool box should be applied based on the specific circumstances at an IP. Such an approach will require that NRAs on each side of the IP co-operate closely together to achieve a satisfactory outcome. However, it is possible that a difference of opinion could emerge between NRAs on the specific measures to be implemented. As NRAs have obligations and duties to protect consumers within their own jurisdictions, this must be a priority consideration for them and may result in a situation where a positive outcome for consumers in their own jurisdiction is unsatisfactory for consumers in the adjacent system. Effective coordination and cooperation between NRAs will therefore be essential in order to achieve the ERGEG goals.

Detailed comments

Implementation of compatible products and procedures

Whilst it is desirable for CAM and CMP to be compatible on each side of an IP, we refer to our point raised above that where mechanisms in place are working satisfactorily then change will bring no benefit and will only serve to increase cost, complexity and uncertainty. Again, we would refer to the arrangements in place between the GB and RoI gas markets.

Incentivisation

The compatibility of incentives between TSOs either side of an IP may well result in difficulties in developing identical arrangements across the IP. Due to differences in the ways in which TSOs may be regulated, incentives may have greater or lesser effect on their behaviour. This could be particularly significant if the TSOs either side of an IP have different incentives or would react to a seemingly compatible incentive in different ways.

Capacity offer and products

The ERGEG proposals state that at unidirectional points, backhaul capacity shall be offered on an interruptible basis. Whilst we agree with this concept, it must be recognised that co-operation between TSOs and NRAs will be required to achieve this. Whilst it would be possible for a TSO to calculate interruptible backhaul capacity based on forward physical flow, this is only worthwhile if a notional entry point is designated by the adjacent TSO. We suggest that the introduction of any such proposal should be subject to the NRA deciding it to be necessary.

Capacity products of one year or less

ERGEG proposes that capacity products of one year or less shall be mandatory in order that new shippers ‘with limited financial commitment capabilities’ can access capacity. While Gaslink recognises the intention of this, we believe strongly that all shippers, whether new or existing, should have sufficient financial security to cover any capacity that is purchased. This should be a fundamental pre-requisite to the application process. To fail to check a shipper's financial ability to pay for capacity will result in additional risk for all network users.

Bundled Products

While we are able to see the attraction of bundled capacity products from the shipper perspective, we have concerns that it may be too simplistic an approach to work effectively in practice. For instance, it is not clear from the ERGEG proposal how the contractual framework would be developed under a bundled approach. Would the shipper hold capacity in both networks? How would the bundled capacity tariff be set? How would revenue be distributed to the TSOs?

Perhaps a more practical approach could be developed whereby there is a single application process resulting in the shipper holding capacity in both networks under separate contractual arrangements. This would enable the shipper to 'back-to-back' its capacity purchases as entry capacity into one network would be conditional on exit capacity being available in the adjacent network. It should also be recognised that arrangements have been developed by shippers and TSOs that allow a similar outcome. We refer here to the arrangements in place between Gaslink and National Grid via the 'ticket to ride' principle and the Moffat Agent. Here, shippers that book capacity at the Moffat entry point are given a voucher which is passed on to a shipper that is then able to book exit capacity from the National Grid network. Exit capacity from the upstream network cannot be booked in the absence of downstream certification. Nominations and allocations are co-ordinated through the Moffat Agent (appointed by the shippers) with great success.

Firm short-term UIOLI

ERGEG suggest that firm capacity that is unused can be resold by the TSO as firm capacity. This will act as an incentive for the holder of the unused firm capacity to sell it via the secondary market. This would be achieved by restricting the renomination rights of firm capacity holders.

Gaslink foresees a number of significant problems with this approach:

- It is not possible for the TSO to determine how much capacity is 'unused' until after the end of the Gas Day. A shipper may keep hold of its capacity for legitimate reasons throughout the Gas Day without having cause to utilise it. For example a shipper might hold entry capacity in excess of its prevailing nomination for a number of reasons:
    - In order to increase deliveries of gas due to within-day weather related demand changes, or to meet increased offtakes of despatched gas fired power generation;

    - In order to increase deliveries due to short-term trading opportunities or to make up for supply issues at an alternative entry point or to deliver balancing gas due to a short system;
- An unintended consequence of restricting renominations will introduce a significant issue for shippers to power generation loads. As wind generation assumes a greater prominence in the electricity mix, gas fired generation will be required to become more flexible as a result of intermittency. Shippers to gas fired generation plants will therefore require more flexibility, rather than less, particularly if gas is being supplied to OCGT plant. Our concern is that the restriction of renomination rights on the gas network will increase costs for generators as shippers become distressed buyers of secondary capacity or incur overrun charges. These proposals may make gas fired OCGTs less attractive to developers. Under extreme circumstances electricity security of supply may be threatened.
- Restricting the renomination rights of shippers may result in a situation where the shipper is unable to respond to demand changes as it cannot access capacity. This may require the transporter to purchase balancing gas to serve the shipper's customers. This may represent a shift in the balancing role of the TSO away from a residual balancer. Under the residual balancing model, shippers are given commercial incentives to balance their inputs to and offtakes from the network. One way in which shippers would do this is by purchasing sufficient capacity to serve their customer's requirements against which they can renominate when demand increases. By restricting this ability, the TSO would be required to take a much more active role in balancing the network on behalf of shippers. This would increase balancing gas costs and imbalance charges for shippers which may ultimately be passed through to end users.
- Introducing restricted renomination rights at entry points that are IPs would result in a situation where different arrangements exist between such entry points and those entry points from storage, LNG and upstream gas production. This could confer a competitive advantage on those shippers that do not rely on the IP entry point to source flexible gas and could be seen as discriminatory.

For these reasons, Gaslink has serious concerns with the suggestion that renominations may be restricted.

Conclusions

Whilst Gaslink supports the aims of ERGEG to create a single EU gas market it has concerns with the proposed approach taken by this consultation document. There appears to be a lack of clarity in a number of the proposals and uncertainty concerning implementation timescales. ERGEG should recognise that a number of TSOs have already developed robust and appropriate CAM and CMP and that to enforce change of these mechanisms would result in cost, uncertainty and complexity for no benefit.