

30th January 2006

Mr. Robert Hull,
Director, Transmission,
Office of Gas and Electricity Markets (Ofgem)
9 Millbank,
London,
SW1P 3GE

Reference: Response to Second Consultation

Dear Mr Hull,

Thank you for this opportunity to comment on the Transmission Price Control Review paper and for Ofgem's attendance at the Irish industry Forum on January 27th 2006. As you may be aware, the January 27th meeting was attended by representatives from the Commission for Energy Regulation, Northern Ireland Authority for Energy Regulation, the Department of Communications, Marine and Natural Resources, the vast majority of Shippers (North and South), the SNIP pipeline operator, Isle of Man authorities and potential power station developers. As was made clear at this meeting all attendees were united in their disquiet with respect to the proposed NTS Exit reforms. These concerns include:

- a) the status of the Moffat Connected System Exit Point (CSEP) within the Transco regime;
- b) the adverse impact of Security on Supply of the downstream Network
- c) interoperability of the proposed arrangements.

We are pleased to make our comments as operator of the downstream network connected at Moffat.

Chapter 6: Price Control Design Options: Framework

It is matter of concern for BGE that section 6.2 of this paper identifies the users of the NTS transmission system to be "*the electricity and gas distribution companies and a small number of very large consumers who are connected directly to the transmission systems*"

We would welcome if the parties at the Moffat Connected System Exit Point (CSEP) were clearly recognised in this paper as users of the NTS transmission system (Moffat accounts for approximately 4% of the total NTS transmission system offtake).

Moffat is the key gas supply point to the network downstream which supplies three jurisdictions: Ireland (south and north) and the Isle of Man with supply dependencies from the Moffat CSEP of 80%, 100% and 100% respectively. The importance of the gas market

arrangements at Moffat cannot therefore be over emphasised given the dependence of these three jurisdictions on gas.

The current arrangements at Moffat give firm contractual commitment to gas flow and serve as a robust model to System Operators and Shippers both upstream and downstream from Moffat.

Extensive effort was invested by Transporters, Regulatory bodies and the Shipping community both upstream and downstream of Moffat in developing the Moffat contractual framework, the main elements of which consist of the Connected Systems Agreement (CSA), Offtake Profile Notice Agency (OPNA) and the Moffat Administration Agency (MAA).

The Agents' roles are clear and well defined at Moffat: matching upstream and downstream nominations, compiling the aggregate matched EODQs and profiling based on these matched EODQ's. The OPN Agent submits profiles several times during the day, providing up to date, accurate information to Transco and hence substantially aiding the operation of the NTS. This robust arrangement may be lost under the proposed new arrangements.

Section 6.5 of the Transmission Price Control Review paper: Objective definition.

BGE on the 9th of January 2005 responded to the request for comments on the Enduring Offtake Working Group Terms of Reference. The objectives that are set out within the Terms of Reference document are the same objectives that are being consulted upon as part of the broader TPCR process. As such, Ofgem advised that the most appropriate place to consider comments on the objectives is through the consultation process on the Transmission Price Control Review paper. We therefore submit comments on the objectives set out in chapter 6. Bord Gáis request that Ofgem consider the concern with respect to the interoperability of proposed NTS arrangements. We recommend that a specific objective be added to the ten proposed already along the following lines:

Efficient Interoperation at Connected System Points. It is important that the trading of gas from the NTS to other systems including Interconnectors be supported. The arrangements should facilitate the operation of processes required for such interoperation.

With regard to the other objectives, we comment as follows:

'Prevent undue discrimination' objective: As a Connected Systems Point is more complex than a standard Exit Point, Bord Gáis would be concerned were the Moffat Connected System Exit Point (CSEP) to be classified as similar to other NTS offtakes. Moffat is connected systems exit point with multiple shipper status and three downstream jurisdictions and we ask that you apply due discrimination to the development of arrangements at Moffat which would be different to other more standard exit points. This needs to be recognised in the 'Preventing undue discrimination' objective.

'Promotion of competition' objective: Under the currently proposed NTS Exit Reforms, competition downstream of Moffat could be severely adversely affected. Bord Gáis requests that the promotion of competition objective be extended to include the promotion of competition in the three jurisdictions downstream of Moffat.

‘Preservation of security of supply’ objective: Security of Supply at Moffat is of major importance to the three jurisdictions supplied downstream of Moffat given the level of dependency on gas supplies from that source: as such we propose that this objective be expanded to ensure that capacity is available on a day to meet peak demands.

Three areas of particular concern arise with regard to Security of Supply under the proposed NTS Exit Reforms:

- (i) The proposed removal of the Capacity Register at Moffat;
- (ii) The potential for Capacity Transfers out of the Moffat CSEP; and
- (iii) The potential for the reduction of the baseline capacity at Moffat

‘Minimise implementation costs’ objective: we would request that Ofgem modify this objective to reflect that the arrangements should also not impose “disproportionately high implementation or administration costs” on downstream jurisdictions. The introduction of the proposed NTS Exit Reforms could inter alia involve, the extension of the agent role, the redevelopment of legal agreements (Moffat Administration Agreement, Offtake Notice Profile Agreement, Connected Systems Agreement) and extensive IT development costs etc. The associated costs have as yet to be comprehensively scoped or estimated but would be extensive.

The benefits of these proposed NTS Exit Reforms need to be reviewed in light of, not only the extensive development costs, but also with regard to the ongoing increase in operational costs both upstream and downstream. We note your intention to undertake a further Impact Assessment and request that Moffat be duly considered in any such assessment.

Chapter 7: Options for enduring offtake

While Bord Gáis Eireann acknowledges the Ofgem requirement for the development of enduring arrangement options, we believe that as the Enduring Offtake Working Group is still actively reviewing these and alternative options, that it would be premature to submit comprehensive comments at this stage. However, please find below, some initial views.

Option 1: Status Quo

Bord Gáis Eireann believes that the Status Quo option gives accurate economic signals and is a workable solution. Ofgem concerns, we believe could be addressed by the further development and adaptation of the Status Quo option.

Option 2: February 2005 Initial Thoughts Option

As option 2 is fundamentally the NTS Exit Reform model outlined in the February 2005 initial Thoughts document, BGE has several concerns with respect to this proposal

Bord Gáis Eireann along with various bodies in the three jurisdictions downstream of Moffat presented comprehensive opposition to this proposal in 2005, the main tenants of which were concerns with respect to:

- a) the status of the Moffat Connected System Exit Point (CSEP) within the National Grid Regime;
- b) the adverse impact of Security on Supply of the downstream Network; and
- c) interoperability of the proposed arrangements.

Option 3 / 3a: Zonal Baselines / Single Global Baseline

Bord Gáis Eireann is concerned as to the zonal baseline setting methodology. Security of Supply is a major concern to the three jurisdictions supplied downstream of Moffat and as such we need to ensure that capacity is available on a day to meet peak demands.

Further information would be required prior to a comprehensive analysis of both Option 3 & 3a including the baseline setting methodology and how this option might operate with respect to capacity booking.

Option 4 Zonal Baselines / Single Global Baseline

The development of option 4 would cause concern for Bord Gáis Eireann as capacity products would be defined on a zonal basis potentially allowing a user holding zonal offtake rights to offtake gas at any offtake within a zone and to trade such offtake rights within zones. Speculative behaviour could undermine the availability of capacity and have serious implications for security of supply downstream of Moffat.

Conclusions

The current arrangements at Moffat serve as a robust model for National Grid, the downstream operator and Shippers both upstream and downstream from Moffat.

As Moffat is a Connected System Exit Point with three dependent downstream jurisdictions and multiple shippers status, Moffat is therefore more complex than a standard exit point and would ask that you develop arrangements which would operate effectively at Moffat and noting that such arrangements may well need to be different to more standard exit points.

We would ask that Ofgem review the Moffat CSEP requirements with particular reference to the objectives, Security of Supply and Interoperability concerns and would welcome the opportunity to further discuss these concerns with a view to establishing common ground and agreeing the way forward on this very important matter.

Yours sincerely,

Avian Egan
Shipper Services Development