



Energy for
generations

Generation & Wholesale Markets

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Dear Mo, Dear Aidan

Thank you for the invitation to provide feedback on several issues presented at the Code Modification Forum meetings of 2 July and 7 August 2014. Please see below ESB's responses to each item. If you require any clarification to these responses, we would be happy to discuss them with you.

Yours truly

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A052 – 'Shrinkage Charges for Irish Storage Facilities'

We have no comments to the legal drafting circulated 6 August 2014.

A059 – 'LDM Change of Shipper Arrangements'

Our understanding of the proposed ratchet measures is that they seek to recover for the Transporter the potential lost revenue associated with relinquishment of annual capacity by an outgoing Shipper. The trigger would be an LDM Shipper booking an annual strip of capacity following a period of booking a lower level of short-term capacity when this short-term capacity was at lower cost (i.e. during summer months). A review by Gaslink would then seek to determine whether the end-user had previously switched within a period of 13 months, and, if that is the case, whether the prior Shipper had relinquished annual capacity under the terms of this proposed Mod. The incoming Shipper would be liable for the cost of the relinquished

annual capacity, after the costs of the short-term capacity for the same period had been taken into account.

Our comments to this proposal are:

- In the Code Mod Forum slides of 14 May, Gaslink presented the results of its analysis of potential for ‘gaming’ or seasonal switching, based on a review of LDM usage patterns. This showed that only the dairy sector demonstrated a seasonal consumption pattern, and this pattern was the inverse of the example provided (the dip in consumption for dairies is in summer rather than in winter). It is possible that, in the future, LDM end-users will emerge who have seasonal consumption peaking in winter, but on the basis of Gaslink’s previous analysis, we do not see that the example provided is applicable to the market. We would suggest that multiple and factual examples should be provided to demonstrate the existence of the problem and requirement for this ratchet.
- The ratchet could discourage competition in several ways. For example, the incumbent Shippers may over-book capacity and by burdening the incoming Shipper with penalties discourage competition. Even if this is not case, Shippers may be discouraged from competing in the LDM segment, as they have no transparency of bookings and these possible additional costs in advance. The provision of information to the incoming Shipper is essential to be able to make the offer. There is also a disincentive for the Shipper to seek to optimise capacity bookings in order to differentiate its offer to the customer; essentially, the capacity part of the offer price becomes the same for all suppliers.
- It discourages any innovation in product offering, e.g. to shorter-term or flexible contracting, which has developed in other markets to the benefit of the consumer, and serves to reinforce the traditional 12 month contract round. Therefore the Irish consumer picks up the cost – ultimately for the capacity and indirectly through lost benefit.
- The CAM timeline, with annual capacity at IPs sold at a fixed date yearly auction for the Gas Year, is likely to a) push all LDM contracts to be signed in March and/or b) mean that Shippers buy less annual capacity as they do not have sufficient knowledge of requirements in March. The Mod could still, in theory, result in annual capacity being relinquished if a summer switch is made, but the cycle for booking and relinquishing the next annual product is extended (into the second Gas Year).

In conclusion, we would not support the introduction of this ratchet.

A062 – ‘Capacity Allocation Mechanism’ – Transitional measures

The options that Gaslink plans to offer Shippers to align to the CAM ‘yearly annual’ product (to extend current, to buy additional or make own arrangements) are welcome and appear reasonable.

We anticipate that notification to Shippers is intended to be issued electronically as well as in hard copy letter.

CER Presentation on options for Capacity Allocation

The CER has produced three high level concept options, which are essentially:

- Bundle by pipeline (Option C)
- Bundle everything (Option B)
- Bundle the two potential routes into NI, as currently physically possible (Option A)

Our comments can only be made at a conceptual level; key elements of declaring a preference or assessing strengths and weaknesses would be in understanding cost and practical operations.

From a trading and optimising perspective, Option B is clearly of interest due to its potential optionality. However, the value of this optionality would need to be assessed against the cost of usage, which it is suggested is a result of adding together all five regulated tariffs (which are currently unknown, in methodology as well as quantum). It is understood that investment in the IBP-SNP connection would not be required to facilitate this option. We would like clarity on the cost of any investment (or avoided investment), and how and whether the TSOs could optimise the flows around this Virtual IP.

Both the Option B and Option A bundles result in Shippers having to pay for interconnection capacity that they may have no intention of using, as three countries are involved and only one has a truly liquid market. On the assumption that capacity costs will be relatively high for some points compared to others, from the current position, this could be problematic for some Shippers. There are potential benefits to the TSOs and for security of supply in optimising flows, which should be shared with Shippers. Transparency of methodologies to be employed, costs and shared benefits would be required by Shippers.

Option C presents most transparency on cost and least potential redundancy of purchased elements, as the bundles are by pipeline route. But the IBP-SNP link would require additional investment. Without the cost of this investment and understanding the impact on tariffs, it is hard to assess this option. In Option C, the TSOs can operate on a physical basis only, with the Shipper using strictly the physical capacity that he has bought, losing any benefits from flow optimisation, security of supply and greater integration with GB.

A further alternative option would be for the Shipper to be able to buy the exact bundle he needs per Option C, but where the TSOs were to coordinate gas flows (as a single GB/NI/RoI TSO would, per Option B). In this option, the cheapest route to market is determined by the TSO. Security of supply, regional coordination and efficiency are potential benefits are all included in this option. The issues of cost allocation for tariff development and charging become more obvious with this alternative. However, in all the options, the question of how revenue will be recovered equitably for these assets is a constant, especially in a future energy market dominated by intermittent wind generation and from lower capacity bookings and fewer molecules of gas flowed.