Irish Offshore Operators' Association
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Irish Offshore Operators' Association

Mr Aidan Hogan,
Gas Networks Ireland,
Gasworks Road,
Cork

17 December 2015

By email: aidan.hogan@gasnetworks.ie; marketdevelopment@gasnetworks.ie

Re: <u>Code Modification A069 – Initial Modification Report</u>

Dear Aidan,

IOOA supports the introduction of Code Modification AO69 and agrees that it should be progressed to the next stage of implementation. It is clear from the initial consultations and discussions that it is required and is supported by industry. IOOA agrees with GNI that the Code Mod is a tariff specific issue and we acknowledged this by raising the Code Mod just one week after the publication of the CER's decision paper CER/15/140. We also raised the requirement for such a Code Mod at the NTLG meetings immediately preceding the publication of the Decision Paper if the Matrix methodology were to be adopted.

IOOA raised the Code Mod to address the discriminatory anti-competitive and cross-subsidisation aspects of the new two part tariff structure and we therefore reject the Transporter's concern that the Code Mod somehow gives rise to such implications. The proposed Code Modification will in fact mitigate many of the worst excesses of the current tariffing methodologies cross-subsidisation and market distortion. We also reject the Transporter's suggestion that the issues raised in the Code Mod should be addressed outside of the code modification process. In this context, IOOA's members wish to offer the following comments:

General Comments:

- IOOA's members agree with GNI that no further capacity products are required to be offered by GNI to address this issue and the existing short term products are sufficient.
- Bord Gáis Energy Limited (BGEL) introduced a slightly different concept during discussions on A069 which is that shippers should not have to pay for capacity at other entry points if that capacity is required due to the occurrence of an onshore interruption caused by a failure of GNI's facilities at or downstream of the primary entry point. IOOA's members support this view but believe that it should be addressed by way of a separate code modification. This will be submitted to GNI in advance of the next code modification meeting.
- Moffat shippers will never have to go to other Irish entry points in the event of a loss of production from an upstream producer supplying gas to the NBP / Moffat due to the substantial excess capacity that exists at this entry point from over investment and the fact that shippers at Moffat have access to the NBP which is one of the most liquid gas trading

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hubs in the world,. This is not the case for other Irish entry point shippers and under the current regime these shippers are discriminated against when they are forced to seek back up capacity at other entry points and pay the smearing charge twice.

- With reference to GB we would suggest investigating the possibility of having the smearing charge as a commodity charge. This would solve all or almost all of the concerns mentioned in the report regarding the distortion of the capacity auctions and secondary capacity markets.

Comments on Section 2.1.1

- Bellanaboy perspective – IOOA's members agree with this position – this position equally could also apply to Inch.

- Inch perspective – IOOA's members agree with this position – this position equally could also apply to Bellanaboy (Cappagh South).

Comments on Section 2.1.2

- Short Term Market Distortion - Considering that there will be excess capacity at the Moffat IP for the foreseeable future, no shippers purchasing short term capacity at Moffat will bid prices higher than the auction reserve regardless of whether that shipper receives a rebate under A069 or not.

- Discrimination Towards Certain Shippers – The premise of A069 is that where a shipper has booked its capacity at an entry point and then has to access capacity at another entry point due to unavailability of gas at the initial entry point that the shipper should not pay the smearing charge twice. IOOA's members cannot see how such can be applied to a power generation facility as when a power generator trips it stops consuming gas and does not need to access capacity at other gas entry points. However, the transfer of the smeared capacity charge to a commodity charge would alleviate the power generators concerns at least in respect of entry capacity.

- Reduced Producer Incentive to Maintain Supply – Introducing A069 will remove the discrimination and cross subsidisation that currently exists whereby if a shipper has to access capacity at another entry point due to the unavailability of gas at the initial entry point that the shipper should not pay the smearing charge twice. This does not reduce a producer's incentive to maintain a reliable gas supply at an entry point, as the producer/shipper is still paying the base capacity twice. All producers will want to maximise gas sales - shippers purchasing gas from producers will on balance receive a higher effective price for gas sourced from a reliable source than from an unreliable one so a producer's incentive is to be a reliable source.

- Potential for Gaming – IOOA's members agree that rule should be put in place to prevent gaming of the system.

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Comments on Section 2.1.3

- IOOA's members support the arguments made in this section.

Comments on Section 2.2.2

- The "secondary adjustment" component of the 2015/16 transmission tariffs is not a cost reflective element and, by its nature, introduces a significant distortion to the secondary market. The implementation of Code Mod AO69 will serve to remedy this distortion and not cause it as asserted by the Transporter.

Yours sincerely,

pp

Steve Boldy
Chairman IOOA Gas Sub-Committee and on behalf of:

AzEire Petroleum
Cairn Energy,
Eni,
Faroe Petroleum,
Fastnet Oil & Gas,
PSE Kinsale Energy,
Kosmos Energy,
Lansdowne Oil & Gas,
Providence Resources,
Repsol,
San Leon Energy,
Serica Energy,
Shell,
Statoil,
Vermilion Energy Ireland,
Woodside.

Cc: Patrick Shannon Chairman IOOA
IOOA Management Committee
IOOA Gas Sub-Committee
John Melvin CER (jmelvin@cer.ie)