



Power Generation
27 Lower Fitzwilliam Street
Dublin 2

Phone: 01-676 5831(switch)
Phone: 01-702 7439(direct)
Email: conor.purcell@esb.ie

Mr. Julian Majdanski
Joint Office of Gas Transporters
Ground Floor Red
51 Homer Road
Solihull
West Midlands
B91 3QJ
enquiries@gasgovernance.com

06th December 2006

Dear Julian,

Re: Modification Proposals 0116V/0116VD/0116A/0116BV/0116CV: “Reform of the NTS Offtake Arrangements”

Electricity Supply Board **does not support** the implementation of this Modification Proposals 0116V

Electricity Supply Board **does not support** the implementation of this Modification Proposals 0116DV

Electricity Supply Board **supports** the implementation of this Modification Proposals 0116A

Electricity Supply Board **does not support** the implementation of this Modification Proposals 0116BV

Electricity Supply Board **does not support** the implementation of this Modification Proposals 0116CV

Amongst these proposals, we would rank our support for them in the following order: 116A (Most Favoured), 116CV, 116BV, 116DV, 116V (Totally against). ESB considers 116CV to be the least worst of the alternatives.

Our comments are as follows:

Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Gas Transporter Licence Standard Special Condition A11.1

- (a) *the efficient and economic operation of the pipe-line system to which this licence relates;*

We do not agree with the four year commitment to pay NTS exit capacity charges, we believe this will act as a disincentive to the economic operation of the system

With the limited operational information we have to date on the flexibility product proposed in NG's modification, we believe will reduce the efficient and economic operation of the system, we envisage this product adding significant IT and administration costs. Thus adding additional complexity to the system operation and increasing the risk errors from operators and users.

- (b) *so far as is consistent with sub-paragraph (a), the coordinated, efficient and economical operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters;*

No comment

- (c) *so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;*

Modification 116A implementation costs would be negligible, all other proposals will incur significant costs in new systems for both shippers and operator. We see these costs as unnecessary.

- (d) *so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:*

(i) *between relevant shippers;*

(ii) *between relevant suppliers; and/or*

(iii) *between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;*

Modification 116A will continue to promote effective competition between shippers at the Moffat Interconnector Exit point, we believe all other proposals will act as a disincentive for UK shippers to transact business effectively at this exit point.

Modification 116V, 116BV and 116VD may require amendments to contracts between Irish and UK shippers. The Moffat Agency agreements will need to be renegotiated between all thirty one GB/Ireland shippers signed up to the agreements.

Currently, UK shippers at Moffat must obtain downstream capacity tickets from downstream shippers before they can book exit capacity from the NTS. The removal of the certification process proposed under modifications 116CV, 116BV, 116DV and 116V will act as a disincentive for UK shippers to transact business at Moffat, thereby hindering trade between member states of the EU. The uncertainty in the arrangements for acquiring exit capacity and the potential risk of being unable to do business at Moffat will weaken competition at this point on the UK system.

- (e) *so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers’ licences) are satisfied as respects the availability of gas to their domestic customers; and*

No comment

- (f) *so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.*

Mods 116V, 116BV, 116DV will require significant changes in UNC systems and procedures, which are unnecessarily complex and potentially costly. This will lead to increased administration costs for both NG and shippers and will increase the operational complexity thus leading to operational and administrative errors in the system operation.

The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

No comment

The implications for Transporters and each Transporter of implementing the Modification Proposal, including

a) implications for operation of the System:

b) development and capital cost and operating cost implications:

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

d) analysis of the consequences (if any) this proposal would have on price regulation:

No comment

The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

No comment

The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

No comment

The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Downstream users at Moffat will incur significant costs and increased operational risks.

The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

Increased costs and operational complexity.

Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

Modification proposals 116CV, 116BV, 116DV and 116V will require significant changes in contractual arrangements for parties transacting business at the Moffat Interconnector for bilaterally agreed contracts and Moffat Agency agreed arrangements.

Modification proposals 116CV, 116BV, 116DV and 116V may act as a disincentive for trading between member states and may be contrary to the two agreed Treaties for the allocation of capacity rights at Moffat between the UK and Irish Governments.

Analysis of any advantages or disadvantages of implementation of the Modification Proposal

We have identified the following advantages for 116A:

- (1) Maintains a successful and simply understood operating system.
- (2) No need for the Irish Regulatory Authorities to approach EU for change in operational procedures.
- (3) No requirement for additional Regulatory intervention from the Irish Regulatory Authorities.
- (4) Negligible additional costs for Shippers.
- (5) Avoidance of expenditure on IT systems for NG.
- (6) Avoidance of expenditure on IT systems for Irish .
- (7) Negligible additional costs for Moffat Agent and savings in avoided legal costs.
- (8) Low requirement for regulatory intervention in implementation of processes.
- (9) The unknown factor of the Flexibility Product is removed and generators can operate knowing that they can obtain flexibility capacity.
- (10) There will be no need to change arrangements for exit capacity at the Moffat interconnector exit point.

We have identified the following disadvantages for 116A:

None currently identified

Analysis of any advantages or disadvantages of implementation of the Modification Proposal

We have identified the following advantages for 116V, 116BV, 116CV, 116DV:

- (1) Access rules beyond 2010 are known.
- (2) Most of the costs for the Shippers and Interconnector Operators are removed under 116CV where the flexibility product is dropped.

We have identified the following disadvantages for 116V, 116BV, 116CV, 116DV:

- (1) Significant costs for shippers and Interconnector operators.
- (2) Large expenditure required by NG for systems and administration of new systems.
- (3) Increased regulatory overheads required to implement new arrangements.
- (4) Increased complexity – with no added value.
- (5) Management of flexibility could be an issue and is more likely to increase operational costs.
- (6) Potential barriers to trade gas between member states of the EU.

The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

No Comment

The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

No Comment

Programme for works required as a consequence of implementing the Modification Proposal

No Comment

Proposed implementation timetable (including timetable for any necessary information systems changes)

The time scales do not allow market participants sufficient time to prepare systems and processes to manage the implementation of new arrangements. The proposed decision date we understand to be Feb/Mar 2007 and for the Auction process to start in July 2007. The new arrangements will be in place before anyone can get internal project teams working on developing new systems and procedures to deal with the imposed changes.

Implications of implementing this Modification Proposal upon existing Code Standards of Service

No comment

Yours faithfully

Conor Purcell
Manager Gas Regulation
Energy Trading & Regulation
Electricity Supply Board
27 Lower Fitzwilliam Street
Dublin 2