

Dear Sir/Madam

28th October 2010

Mutual Energy Limited welcomes the opportunity to respond to the ERGEG Framework Guidelines (FG) on Gas Balancing Rules on European Gas Transmission Networks.

Mutual Energy Limited (MEL) is the ultimate holding company for both Premier Transmission Limited (PTL) and Belfast Gas Transmission Limited (BGTL). Premier Transmission Limited (MEL) is a licensed TSO in Northern Ireland, owning and operating the Scotland to Northern Ireland Pipeline (SNIP). PTL holds a GB Interconnector Licence and an exemption to the GB Transporters Licence from Ofgem, and also a Licence for the Conveyance of Gas in Northern Ireland from the Northern Ireland Authority for Utility Regulation (NIAUR). Belfast Gas Transmission Limited (BGTL) is a licensed TSO within Northern Ireland, owning and operating the Belfast Gas Transmission Pipeline System. On a day to day basis PTL operate the BGTL assets through an inter company agreement.

General Comments

MEL is of the opinion that harmonisation of rules including balancing is in the benefit of a competitive market and in the interest of network users and ultimately end users, however it feels that the TSOs must not be forced down a certain route just to fall in line with Europe, if this route does not reflect what the internal network users require due to the nature of the system. For example Northern Ireland has a small linear pipeline system with only a handful of network users and the costs for implementing all suggestions within the Framework Guidelines (FG) will ultimately be paid for by them but not necessarily fully utilised. A Cost Benefit Analysis should be carried out for each member state to assess viability of any change – this can only be done once a target model is achieved. It would possibly be best for a target model to be written, a CBA for each member state to be carried out as mentioned, and fed back into ERGEG to see what is a realistic target for each member state.

In Ireland the Common Arrangements for Gas (CAG) project is potentially due to be implemented in October 2012. This will involve migrating from 4 network codes in Ireland to one unified CAG Code, enabling network users to freely flow gas around Ireland with the same harmonised rules. As a result of CAG many of the suggestions in the Third Package will be realised with regards to cross border issues, aligning rules for adjacent networks and streamlining and simplifying many processes for



network users. The timescales in the FG workshop suggest that by July 2012 the network code on balancing would only be about to go through the comitology approval process and so implementation would not be required until well beyond the proposed CAG implementation date. This response therefore although from a Northern Ireland point of view, takes this into consideration that CAG will address some issues raised in the FG and how the suggestions could impact on an all island CAG system network.

Comments on Specific Sections of the Framework Guidelines

3. Purpose & Policy Objectives

To facilitate gas trade across systems is the overall aim of the network code to be implemented and to this end, harmonisation of balancing would be seen as one area where this could be done. MEL agrees that this could be done however at a cost and the question is will network users be keen to pick up the bill. MEL thinks that the FG should define a target model which should be detailed enough so that definite interim steps and timescales can be put onto implementation. MEL is of the view that various networks around Europe are both designed differently from a physical point of view and are at various stages of development regarding market liquidity and so this needs to be recognised so that member states may require different timescales to reach the target model – indeed some states may never meet the target model depending on the nature of the networks and so MEL would propose that where necessary “toned down target models” should be used for different member states.

4. TSO Information Provision Obligations

MEL recognises that having various tools available to the network users should enable them to balance their inputs with offtakes more successfully. One of these tools as mentioned in the FG is the access to information provided by the TSOs on their inputs and offtakes. However the incentives need to be there for the network users on a daily basis to actually make it worth their while taking time and resources in doing this. MEL worries that systems could be put in place with costs to network users to implement and that the information is not used by the network users to correctly balance their portfolios. This could be as mentioned due to a resource issue or even something such as them passing any costs of imbalances on to their customers – in a limited competitive market



such as NI this can happen. However MEL recognises that with CAG proposed to be implemented in Oct 2012 the market would be opened to a wider group with all Ireland being a larger more competitive market than NI currently.

MEL is not sure why network users would require to know how much gas is in the system ie linepack. A network user is only concerned with matching inputs to outputs with regards to balancing and does not require to see linepack availability. This could encourage network users to participate in gaming activities. MEL agrees that network users could get dynamic information from the TSO regarding entry and exit allocations (the TSO may need to interface with DSOs) but as mentioned there would be costs involved in setting up IT systems to carry this out. Cost Benefit Analysis should be done on any proposed change to fully understand what the change would achieve.

Another issue of information provision is the current and real threat of cyber terrorism. This has been realised recently with the spread of the Stuxnet virus which attacked Siemens SCADA systems. These types of SCADA systems would be used to provide updated daily information as stated in the FG to network users and so increasing the risk of terrorists seeking to target transmission infrastructure. Security of important infrastructure such as gas transmission systems needs to be taken very seriously as although the Stuxnet was specific to Siemens software, any SCADA system could be a future target of cyber terrorism. MEL suggests that any provision of information should be thoroughly risk assessed prior to being made compulsory under EU Legislation.

5. Network users and TSO Roles & Responsibilities

MEL welcomes the overriding view that as much as possible the network users should be incentivised to balance their portfolios and so limiting the need for balancing actions by the TSO. The tools needed for network users to carry this out could be trades of imbalances and also acting on dynamic up to the date information within a gas day. MEL would like clarity on what other tools ERGEG are thinking should be available to network users to carry out this task.

As mentioned as part of the Common Arrangements for Gas in Ireland (CAG) which are potentially due to be implemented in October 2012, and subject to consultation there should effectively be one balancing zone within the island of Ireland, across 2 jurisdictions. This will involve the TSOs jointly contracting the operation to a single operator who, when necessary will mitigate imbalances within the networks where possible. However if required the operator will carry out balancing actions for the whole balancing zone in Ireland. Under the CAG code network users would have access to short



term gas products and would be able to trade their imbalances with other users after the gas day, which is in effect a pooling of the imbalances on the system.

The FG mentions that the code shall provide for TSOs to allocate linepack to network users if approved by the NRA. This is effectively the definition of carrying out a system sell which is required if pressures build up too high on the system. If linepack is sold at other times to a network user surely this is classified as a product, separate to balancing and would sit elsewhere in the code such as the capacity section. MEL would like some further clarity on what actually is meant by this statement.

6. Balancing Periods

MEL agrees that the balancing period could be harmonised and that the target model of a daily interval is suitable. MEL currently operates a daily balancing regime and the within day imbalances are limited by means of network users providing offtake profiles along with any nominations/renominations. It is recognised that even though a network user is in balance at the end of the balancing period (ie day), during the day the offtake profile may not have matched the input profile and if this shipper is a significant size, depending on the network characteristics they may have caused a balancing action throughout the course of the day, even though they would have a 0 imbalance at the EOD. However any monitoring of within day imbalances and applying associated charges to them is a move away from daily balancing and towards hourly or within day balancing which MEL argues is not required as it is not stipulated as a target model of the FG.

7. Imbalance Charges

The FG suggest that imbalance charges should be reflective on the costs incurred by a TSO in buying balancing gas and services (or on the revenues received by a TSO in selling gas). Currently MEL carries this out indirectly. MEL holds both a buy and sell contract which are annually tendered and which are both linked to the NBP on any day that a balancing action is carried out. Imbalance charges to network users are linked to the NBP on that day also and hence the 2 are linked indirectly.

The FG suggest targeting those network users which cause any imbalances that lead to a balancing action. MEL suggests this is already addressed in the overall principle of imbalance charges – those



who have greater imbalances will be charged more than those who do not, with those network users who don't have an imbalance being charged nothing. MEL suggests that even those users who have an opposite imbalance position to any that causes a balancing action should still pay an imbalance charge – this will still incentivise these users to trade their imbalances with users who have an opposite imbalance. The FG suggest that on days when actions are taken the imbalance charges should be linked to the price of the action and on days when there is no action they should be linked to the relevant wholesale market. However MEL's prices for balancing gas sells/buys are linked to the adjacent wholesale market in GB as are the daily imbalance charges on network users. This way indirectly the imbalance charges are linked to the price of any actions on any day when balancing is required. It would be necessary if ERGEG could clarify whether access to a liquid market needs to be within the same network as the TSO or if an adjacent liquid market, such as the NBP in relation to Ireland satisfies the target model of the FG.

The FG mentions a balancing platform to be used if there is no wholesale market. Although there is a wholesale market in Ireland, the Irish Balancing Point (IBP), which would potentially be accessible for all network users under CAG, it is still insufficiently developed for the purposes of being used by the TSO as a platform to buy/sell balancing gas. This being the case, the nearest wholesale market is GB and access to this market needs to be via a third party who is a shipper on the NTS for a system buy, or on the MEL system for a sell. As mentioned this can and is done via annual contracts with these third party network users. The price is linked to the NBP however there are small uplifts when buying gas due to the charges they incur in shipping the gas, and when selling gas the price is slightly cheaper than NBP so as to be attractive to the network users at the tender stage, as they would usually buy any required daily top up gas from the NBP. Hence there is a liquid market, albeit in the adjacent network of GB ie. at the NBP.

MEL would suggest that the proximity and close linkage to GB and hence the NBP would be sufficient to meet any access to a liquid market requirements as the implementation of a balancing platform may be costly and unnecessary as currently network users within Ireland utilise the NBP on a regular basis. MEL asks ERGEG to clarify that this is acceptable.

8. Buying & Selling of Flexible Gas and Balancing Services by TSOs

MEL is currently buying and selling balancing gas as described previously which is in line with the FG in so far as it is market based, being linked to the NBP. However this is done through annual contracts with network users and not directly via the market or via a separate balancing platform,



which is described in the FG as an interim step. For MEL to trade at the NBP to buy/sell gas directly would mean to accede to the NTS code and to become involved in the trading arena along with paying associated transportation costs. This would not only have these additional costs but also costs associated with the additional activities associated with being a network user on the NTS and trading at the NBP eg. IT set up costs, resourcing for carrying out shipper and trading activities etc. If and once CAG is fully implemented network users in Northern Ireland will have access to the IBP, the trading hub in the Republic of Ireland, however as this is insufficiently liquid it makes more sense as is done currently for balancing gas to be contracted to a third party Shipper, which still enables market based buying and selling of balancing gas linked to the adjacent NBP. The target model of a balancing gas platform where the market is insufficiently liquid would add further requirements with regards to costs and resources for the TSOs in Ireland and therefore price rises to consumers. Furthermore a reverse flow product at Moffat is currently being developed which will enable the system sell balancing gas to be sent directly onto the NTS to a network user and sold at the NBP which will further increase the number of network users able to compete for the annual gas system sell tender.

9. Cross Border Cooperation

As stated currently there are 2 balancing zones in the island of Ireland. Post CAG it is proposed that Ireland will be balanced as a single zone and so falling in line with the suggestions within the FG for alignment. The step beyond this as suggested in the FG would be network users and the TSO within Ireland being able to trade their imbalances with the adjacent balancing zone of GB and specifically on the NTS with National Grid and their network users. Potentially there could be further savings for network users and TSOs in Ireland in doing this which MEL would obviously support, however as mentioned in the FG a cost/benefit impact assessment should be completed to ensure that these savings are real and to obtain network users perspectives on the proposal.

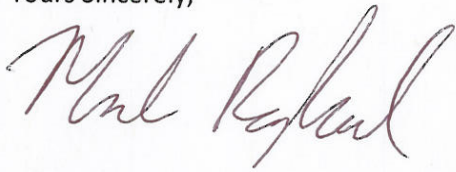
The proposed implementation of CAG within Ireland would involve a single operator carrying out its duties across two countries and is therefore many steps beyond anything proposed within the FG on cross border cooperation. Hence Northern Ireland and Republic of Ireland should be compliant not just on balancing but on many aspects of the Third Package with regards to Cross Border Cooperation.



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