

# Response to DECC consultation

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**Date: 19.10.2010**

BGE is pleased to have the opportunity to respond to DECC's consultation on the EU Third Energy Package. Our response focuses on DECC's proposals for the unbundling models to be made available in GB. We note that "the Government is minded not to make the ITO model available". We ask DECC to re-consider making the ITO model available (at least for BGE) for the following four reasons:

- **The Irish interconnectors are critical for Ireland's security of supply.** Over 90% of RoI gas supplies flow through the Interconnectors, and natural gas is used to generate around 50% of electricity in Ireland. Anything affecting the cost and the operation of the interconnectors will have significant impacts on Ireland's energy security of supply and energy competitiveness. Reflecting this, the operation of the pipeline is already governed by a Treaty between the UK Government and the RoI government. The Treaty recognises that "the Pipeline is being constructed to satisfy the demand for Natural Gas in Ireland";
- **Our vision of a common ITO model in relation to our assets across RoI, NI and GB, fully compliant with the Directive, would have significant benefits.** We propose that a common entity, certified by Ofgem, NIAUR and CER, owns and operates our gas transmission assets across the three jurisdictions. This would be the least cost approach, and it would be an important step towards regional integration of our markets. We would work to make sure all the regulators certified our ITO organisation as Directive compliant. As you may be aware, the Irish government has already decided on the ITO model for BGE in RoI;
- **An alternative model (either full ownership unbundling or ISO) would add complexity both for shippers/suppliers and network operators.** The Irish system and interconnectors are operated as a single network in RoI. Shippers/suppliers contract for capacity with a single entity under a single Code of Operations, and the network is operated, maintained and developed in an integrated fashion. If UK legislation does not allow an ITO, a new entity will have to be created to operate the part of the interconnector system in GB. This will create an additional interface for shippers/suppliers who will have to interact with the GB interconnector and Irish systems separately (for example for capacity booking, nominations, settlement, and invoicing). It will also create an additional operational interface, as operation and maintenance will need to be coordinated between two operators. Finally, new agency services will also be required; and
- **Such a model would increase costs to Irish customers with no obvious benefit in GB.** An ISO (or a fully unbundled entity) in GB would need all the resources required by the Directive. The Commission is unlikely to approve ISO models which rely extensively on others (especially VIUs) for capability. We estimate that to establish a GB ISO (and associated separate Asset Owner business) would involve at least €11m in set up costs and ongoing costs of between €3m and €3.5m per annum. This would increase controllable costs of the interconnector by circa 50%, with knock on impacts on Ireland's gas and electricity prices.

Given the importance of regional solidarity and integration, we believe that it would be unhelpful for DECC to implement a policy that increases complexity for shippers, creates obstacles to regional co-operation, and imposes costs on Irish consumers in the absence of significant benefits for GB.

BGE is looking forward to working closely with the authorities in all three jurisdictions to put in place arrangements that will deliver compliance with the Directive, and that will ensure that the market continues to develop in line with the key principles underpinning the Directive including:

- Ensuring adequately developed networks that provide non-discriminatory access and facilitate competition;
- Furthering regional integration of markets to enhance choice for all customers; and
- Avoiding unnecessary regulatory burden and cost to customers.

In the remainder of this response we expand on the views set out above. In particular, we set out:

- Background to the current arrangements;
- BGE's vision for a single ITO;
- A description of the cost and complexity issues associated with an ISO-ITO interface; and
- Our assessment of the compatibility of the ITO model with the GB market arrangements.

## **The current arrangements**

The BGE group (BGE along with our subsidiary companies Gaslink and BGE (UK)) owns and operates transmission and interconnector assets in Great Britain, in Northern Ireland and in the Republic of Ireland (further detail is provided in an annexe which sets out the current group structure and licensing arrangements).

The two natural gas interconnectors are a critical part of the gas transmission network on the island of Ireland. They are now the most important source of gas supplies, and gas security of supply on the island. In 2009, over 90% of RoI gas supplies were transported through the interconnectors. Moreover the interconnectors are also critical to Ireland's overall energy security of supply. In 2009, the power generation sector accounted for 64% of all gas transported and natural gas was the fuel used to generate 53% of electricity in Ireland in 2009. In consequence, anything affecting the operation of the interconnectors will have significant impacts on Ireland's energy security of supply and energy competitiveness.

The Interconnectors are used only to export gas to the Irish market. The Interconnectors are managed and operated in a seamless way with the Irish onshore system. The interconnectors are paid for exclusively by Irish consumers, and do not impose any costs on GB customers. Moreover, the flow over the interconnectors is determined by market conditions on the island. Therefore, the operation of the interconnectors themselves has no impact on prices in the GB market, or on competition in the GB market. In any future arrangements, given the scale of the Irish market, we would anticipate that this will remain the case (see Annexe 3, which further considers this point).

The operation of the pipeline is already governed by a Treaty between the UK Government and the RoI government. The Treaty explicitly recognises that “the Pipeline is being constructed to satisfy the demand for Natural Gas in Ireland”. The Treaty also enshrines the principle of fair and non-discriminatory access. Moreover, regulatory authorities in both NI and RoI agree that there is no evidence or concern that BGE has engaged or attempted to engage in any discriminatory behaviour in relation to the operation of the interconnectors, or any other element of the gas transmission infrastructure on the island.

Finally, the setting of access terms and charging methodologies is regulated by the Irish Commission for Energy Regulation, as DECC has previously recognized the risks and additional costs that would be associated with double regulation. In particular, when DECC issued the current licence for the interconnector system it “switched off” certain standard conditions related to access, in recognition of the fact that the interconnector system was subject to regulation by the CER in Ireland:

*“We share the concerns of the government of the Republic of Ireland about the potential for conflicting regulatory requirements for the owner/operator of the interconnector system as the aspects covered by these licence conditions are already regulated by the Irish regulatory authority, the CER. Double regulation would lead to regulatory uncertainty for market players and be unnecessarily burdensome, costly and confusing to the detriment of Irish consumers. We are also concerned that if the licence terms of this interconnector system differed from that of the Scotland to Northern Ireland Pipeline (SNIP) (whose interconnector licence also has standard licence conditions 10 and 11 switched off), this could adversely affect the development of the All-Island Energy Market.”<sup>1</sup>*

### **Our vision is for a single compliant ITO, certified by all authorities**

As you may be aware, the Irish government has already decided that it will allow the ITO model for BGE in RoI, and BGE is currently intending to re-structure its RoI business to become compliant with the requirements of the ITO model.

BGE has always, working with the regulatory authorities, sought to develop and operate our networks in an efficient and effective manner that minimises costs and maximises benefits to consumers. Our approach to compliance with the Directive is no exception to this. As is recognised by DECC in relation to GB, and by the RoI regulatory authorities, implementation of the current Directive’s unbundling provisions is unlikely to lead to any significant customer benefits. In particular, the authorities in RoI have recognised that competition is developing in the gas market, and that there have been no issues in relation to discrimination. In consequence, our approach has been to identify the option that is likely to impose the lowest cost on consumers.

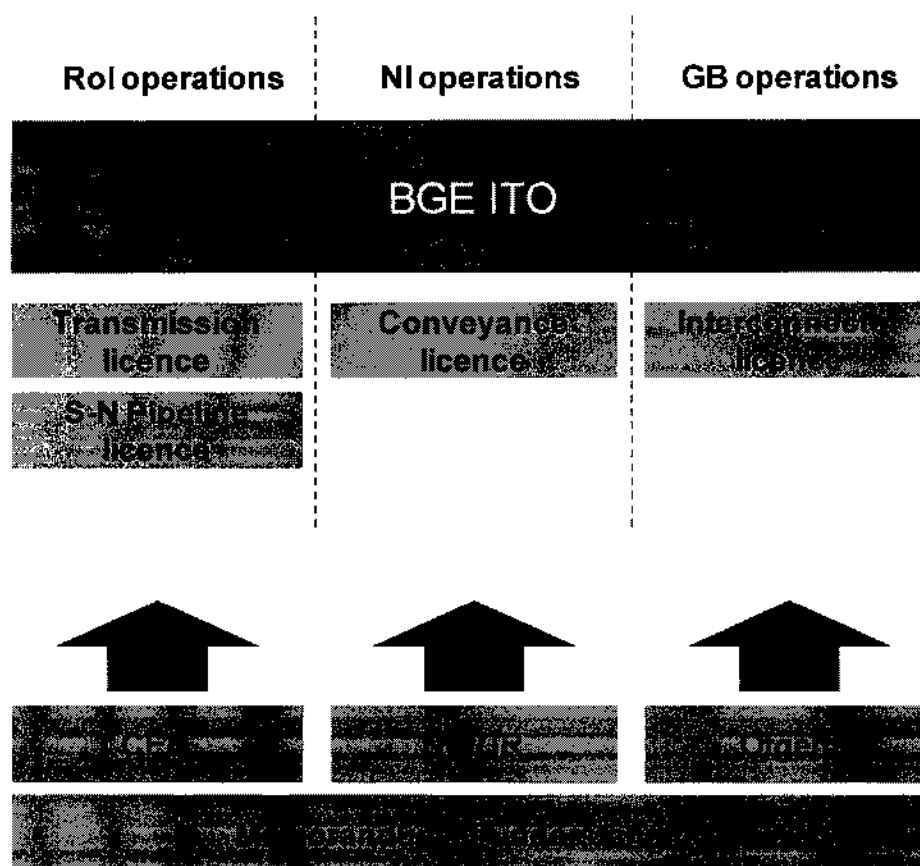
Under the Directive, BGE will require certification for its activities in each of the three jurisdictions. In our view, the lowest cost approach (which will also deliver benefits by moving closer to regional integration of markets) will best be achieved by the delivery of a single common ITO organisation,

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<sup>1</sup> BERR (2007) “Notice under Section 8(4) of the Gas Act 1986 of the Secretary of State’s intention to issue a licence for the operation of the gas Interconnector system between Scotland and the Republic of Ireland”

licensed by the regulatory authorities in the three jurisdictions, which is fully compliant with the Directive.

This is set out in the Figure below.



The key features of this model would be:

- Amalgamation of Bord Gáis Networks, Gaslink and BGE UK (the current holder of the GB interconnector licence) into a new 100% owned ITO subsidiary of BGE operating across borders to the benefit of customers throughout GB and Ireland – this ITO would be fully compliant with the 3<sup>rd</sup> Directive and would have all the appropriate safeguards, including a supervisory body and compliance regime;
- The ITO subsidiary would undertake combined transmission system ownership and operation;
- The ITO would have its own Corporate, IT, Finance and HR functions, creating a completely stand alone and independent subsidiary; and
- Regulatory authorities in RoI, NI and GB co-ordinate their regulatory oversight and undertake certification of the BGE ITO entity in an efficient way which ensures access arrangements which facilitate an effective regional market and avoids costly regulatory duplication. This could be achieved by some form of MOU between such authorities which sets out their respective responsibilities for their jurisdictions. In our recent response to Ofgem's consultation, we proposed that such a mechanism be considered by the authorities.

In order for this outcome to be achieved, it is necessary that the appropriate authorities in the three jurisdictions allow the ITO model to be adopted by the BGE group.

### **Not allowing an ITO would significantly increase cost and operational complexity**

DECC's consultation paper suggests it is minded to allow the ISO model and Article 9.9 for consideration, but that it may not make the ITO model available.

As we note above, BGE is currently working towards re-structuring its RoI business to become compliant with the requirements of the ITO model.

With respect to its GB operations, BGE does not believe its current arrangements meet the criteria for an Article 9.9 exemption. Under DECC's current proposed approach (as outlined in the consultation document), BGE would therefore be required to implement either full ownership unbundling or an ISO model in GB in order to be certified compliant with the Directive.

BGE is concerned as an outcome in which BGE's Irish operations are structured as an ITO and its GB operations are structured as an ISO (or ownership unbundled) will lead to:

- Increased costs which would be borne by all consumers on the island; and
- Significant additional complexity for regulators and market participants, alongside substantial practical operational challenges for BGE.

This has the potential to significantly affect both Ireland's energy security of supply and its energy competitiveness. It is therefore not in the best interests of either customers or market participants.

### **An ISO in GB will be more expensive**

Our assessment of the ISO and ITO models found that the ITO model is substantially cheaper, both in terms of set up and ongoing costs, than the ISO model. Given DECC's initial position that it is minded not to allow the ITO model (which will be adopted in RoI), we have considered the costs associated with the implementation of an ISO model<sup>2</sup> in GB.

These costs fall into three categories:

- direct costs (i.e. set-up and ongoing costs of the new entity);
- interface costs (i.e. additional costs as a result of additional regulatory and operational interfaces); and
- reduced efficiency (i.e. as a result of reduced ability to incentivise operations).

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<sup>2</sup> Our assumption is that a relatively 'thick' ISO model will need to be created. In consequence, it is likely that the set up and ongoing costs would be similar for a fully ownership unbundled model as for an ISO model.

### ***Direct costs***

In order to comply with the Directive, the GB ISO would have to be properly constituted and equipped with the resources required by the Directive. There are stringent provisions in the Directive regarding the sharing of services between different Directive model entities. In consequence it is likely that the establishment of a separate GB ISO would involve significant duplication of resources relative to the single ITO model. We believe the Commission is likely to be particularly concerned about any arrangements that look like they are diluting the unbundling elements of the ISO model, in particular in relation to the provision of services from VIUs, and so will take a strict line on resource sharing.

In order to comply with the ISO model, a separate GB Interconnector ISO entity (GB ISO) would have to be established. That business would be entirely separate to BGE, reporting to a different Government Minister in RoI. The GB ISO would not be able to procure any services from BGE, except through competitive tender, and would be responsible for the operation, maintenance and development of the Interconnectors (up to an interface point with the RoI system, which would itself have to be determined). Annexe 2 sets out in greater detail the functions for which the GB ISO would be responsible.

In addition, BGE would have to create an Interconnector Asset Owner business within the BGE Group, but entirely separate from the RoI ITO business. The Asset Owner business would need to be unbundled as a legally independent subsidiary within the BGE Group and this legally separate subsidiary would be licenced as the owner of the Interconnectors. The Directive also indicates that the Asset Owner should be fully functional and stand alone and does not share services with the rest of the BGE group.

In terms of cost, we estimate that the total additional costs for the ISO and Asset Owner (compared to a single ITO model) would be:

- Set up costs of at least €11 million. The bulk of the set up costs would relate to the ISO entity, as it would be required to establish entirely separate IT systems and offices; and
- Ongoing costs in the region of €3m to €3.5m per year. The majority of this is comprised of additional staff costs. We estimate that the ISO would require a staff of at least 30, while the asset owner would require staff of at least 6.

To put the above costs in context, average controllable operating costs for the Interconnectors are circa €7 million per year. The requirement to have a separate entity in GB (either an ISO or a fully unbundled entity) would therefore result in increasing controllable costs on the interconnector by circa 50%. The set up costs represent a year and a half of controllable costs on the interconnector.

Moreover, as the Interconnectors typically set the Irish wholesale gas market price, any cost increase will be felt across the market. It will also have a knock on effect on Ireland's electricity prices given that gas fuels around 50% of Ireland's electricity generation.

### ***Interface costs***

We note that these cost estimates have been made on the presumption that there will be a seamless approach to the regulation and operation of the Interconnectors and the Irish onshore system. Such a seamless approach is in place today, because:

- the regulatory functions are managed by a single regulator, the CER, in co-operation with Ofgem. The setting of access terms and charging methodologies are regulated by the CER as DECC has explicitly recognised the risk and extra costs that would be imposed on operations by “double regulation”; and
- the operation, maintenance and development of the pipelines is undertaken by a single entity in an integrated manner.

However, under the ISO model, it is likely that Ofgem will now have to become actively involved in the licensing and regulation of the GB element of the Interconnectors. This is because under the new arrangements the Interconnector ISO will not be part of the wider BGE group, and may not in fact hold any Irish licences (and so would sit outside of the regulatory reach of the CER)<sup>3</sup>. In consequence, Ofgem will be required to licence and regulate an entity whose operations impact solely on Irish consumers.

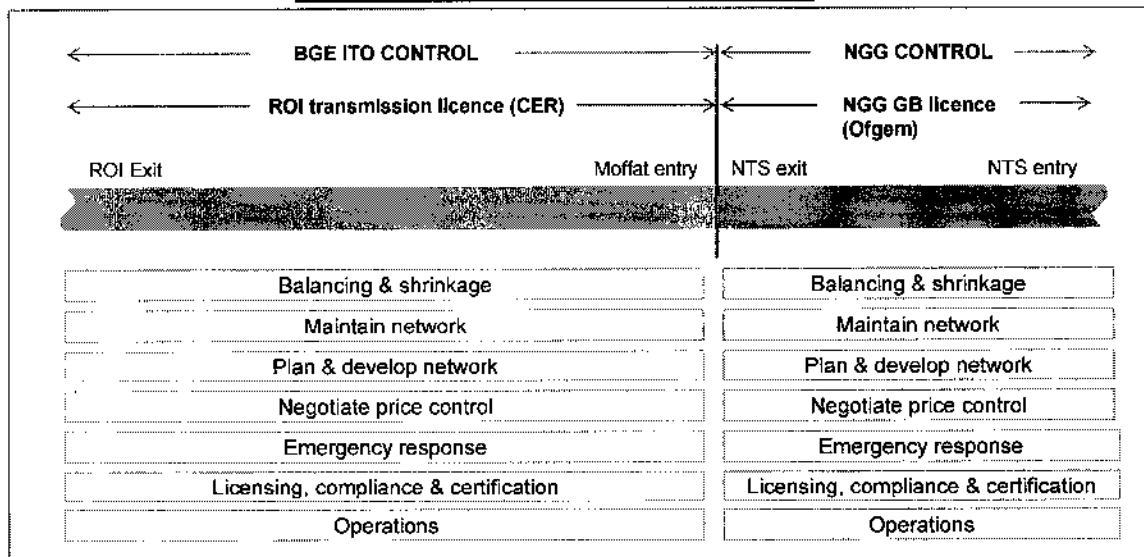
Equally, there would be additional interfaces between the ITO and ISO in relation to the physical operation, maintenance and development of the pipeline system.

The Figure below illustrates the arrangements that are in place today/under an ITO model compared to those required under the ISO model.

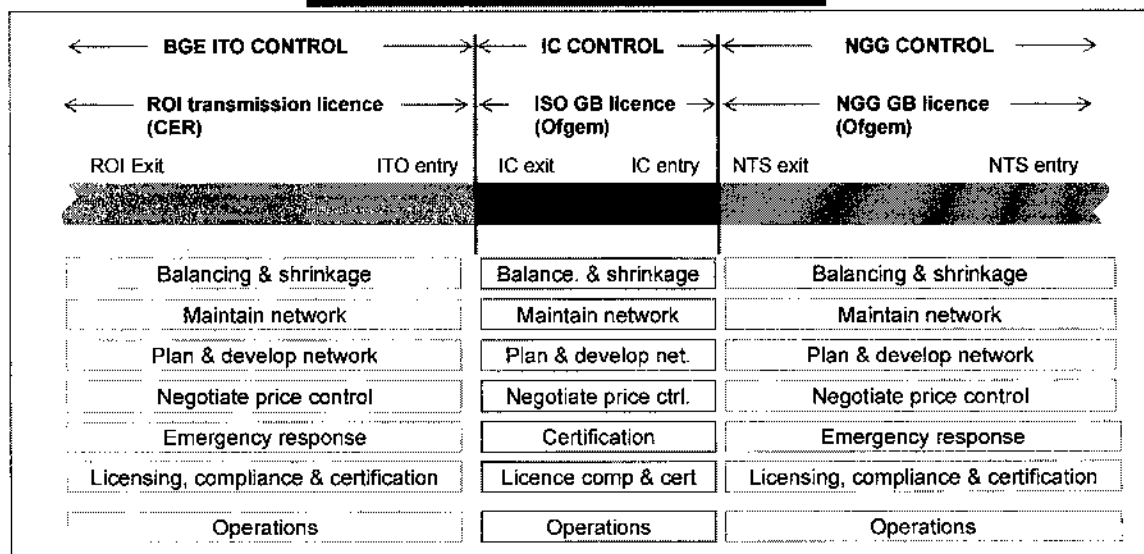
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<sup>3</sup> One of the first issues to be resolved would be where the jurisdictional boundary should lie between the GB ISO's operation of the Interconnector, and BGE ITO's operation of the Interconnector.

### Illustrative network processes – Current arrangements/BGE ITO



### Illustrative network processes – ISO or FOU



It is clear from the diagram that introducing a separate entity responsible for part of the interconnectors would create an interface where responsibilities would need to be clearly defined. For example:

- Maintenance: who would be responsible? Could the ISO procure services from the ITO? Would it have to be competitively tendered? Who would be responsible for setting maintenance policy? What if there were different incentives for maintenance and inspection intervals in different jurisdictions – who would take the final decision on when and how to maintain?
- Development: how would the ISO and ITO interact in relation to any proposed developments of the infrastructure? Who would take the final decision on the right approach to new investments?



- Commercial regime (booking capacity, nominating etc.): How would the commercial access arrangements at the interface between ITO and ISO work?
- Governance: what dispute resolution would be needed between the ISO and ITO? Which authority would govern it? Who would pay for the administration of the interface?
- Regulatory: Who would set the price control for the GB ISO? Who would regulate the Asset Owner (which may hold only a GB Asset Owner Licence)? Would a separate Asset Owner price control be required?
- Environmental: Who manages the HSE relationship, for example, how are safety cases managed? Who manages the relationship with SEPA? Who is responsible for emissions?

While we hope and anticipate that, in such a situation, the CER and Ofgem and the respective operators would adopt a co-ordinated and integrated approach, it is clear that the ISO or FOU models introduces an additional regulatory and operational interface, and so the potential for additional costs and operational complexities.

### ***Efficiency costs***

Finally there are also well established concerns in relation to the ability to efficiently incentivise a deep ISO<sup>4</sup>. Weaker incentivisation of the operation, maintenance and development of network assets may also lead to higher costs over the longer term.

### ***Impact of costs***

Any additional costs are most likely to fall on all consumers on the island of Ireland. Given the importance of regional solidarity and integration, we believe that it would be inappropriate for DECC to implement a policy that imposed costs on Irish consumers in the absence of significant benefits for GB. We note from the impact assessment that DECC does not consider that its current policy position is likely to be associated with any positive benefits.

## **An ISO in GB will lead to increased complexity for shippers/suppliers**

Establishing a GB ISO would also result in significant additional complexity for market participants (shippers/suppliers). These issues arise because requiring different models to be implemented in GB and RoI will result in the operation of the interconnector and associated onshore assets being split between separate entities. This would result in there being two operators of the same integrated asset which is currently seamlessly operated as part of the Irish transmission system.

BGE UK is the current GB Interconnector licence holder. From the perspective of shippers/suppliers the Interconnectors are operated seamlessly across jurisdictions. In consequence, shippers/suppliers face only one counterparty when contracting for capacity on the Interconnectors.

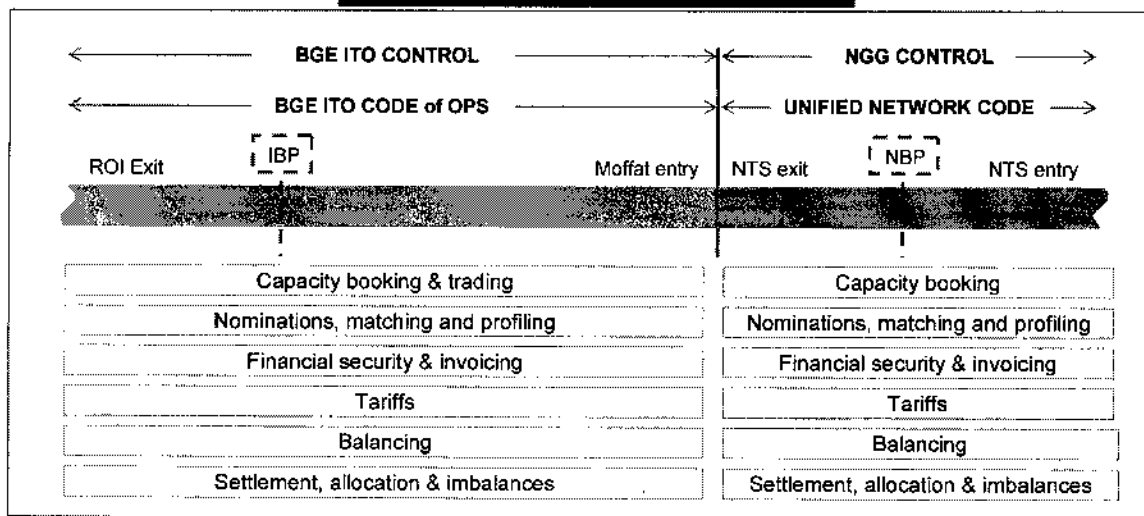
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<sup>4</sup> While the ISO will be responsible for the ongoing operation, maintenance and development of part of the interconnectors, it will not own the underlying assets. In consequence, it will be very difficult for the regulator to appropriately incentivise the efficient operation and maintenance of the interconnector. By comparison, under the ITO model, the same entity owns and operates the assets, providing substantially greater scope for the regulator to put in place appropriate efficiency incentives.

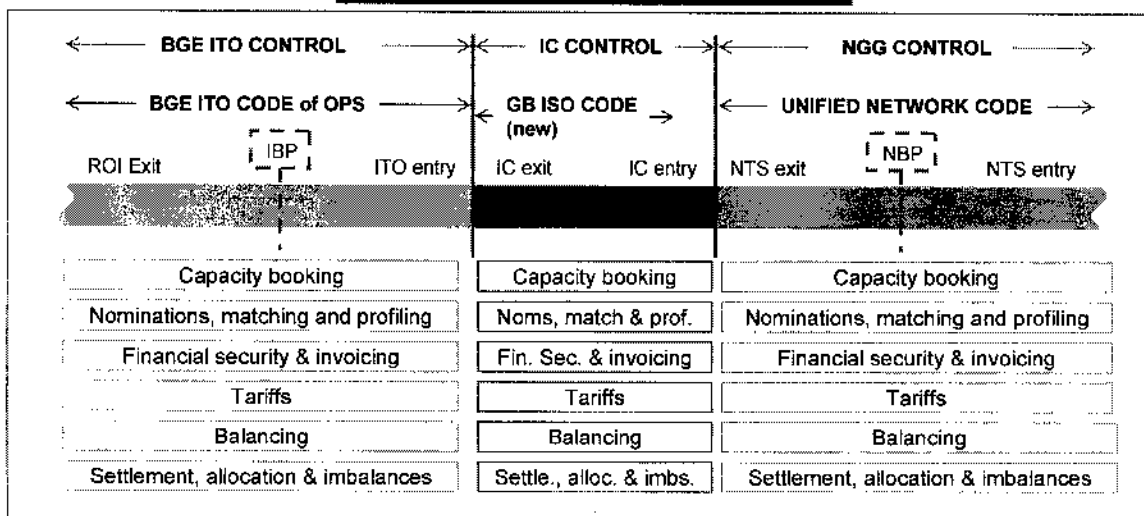
Under the ISO or Full Ownership Unbundling models, the GB assets would be operated by an entirely separate company from BGE ITO, and in addition, would be unable to procure services from that ITO (other than through competitive tender). In consequence, shippers/suppliers would face two different operating codes, and two different parties when booking capacity on the Interconnectors. They will also face two different sets of tariffs (see cost implications above) and would be invoiced by two different organisations.

This is set out in the Figure below, which provides an illustration of the current arrangements/ arrangements under the ITO model with the arrangements that would be required were the ISO/ownership unbundling models to be implemented.

**Shipper/supplier commercial processes  
– Current Arrangements/BGE ITO**



**Shipper/supplier commercial processes  
– ISO or FOU**



No issues have been raised by shippers/suppliers in relation to interconnector access, a fact acknowledged by the regulatory authorities on the island. Therefore, the inability to establish a common ITO organisation across RoI and GB would add to shipper costs and complexity without providing any offsetting benefit. It would therefore be likely to be considered by the market as a retrograde step, introducing an interface where none existed previously and therefore moving away from greater regional integration. It is therefore significantly at odds with one of the objectives of the Directive, the fostering of ever closer regional co-operation and integration.

Reflecting the complexity of interfacing between two gas transportation systems, agency arrangements (Moffat Agent and OPN) have been in place now for over a decade between the NTS and the Irish system. These arrangements are in place to ensure the effective management, administration and co-ordination of certain administrative tasks (i.e. nominations, matching, profiling and allocations). This is with a view to facilitating a reduction in the commercial risk inherent in the transfer of Natural Gas between two transportation systems with different contractual, regulatory and transportation regimes. The introduction of an additional system operator for the Interconnector would necessitate the creation of an additional suite of arrangements.

Allowing a single ITO in GB and RoI would more appropriately align with the Directive's objective of greater regional integration. To date, the authorities in the three jurisdictions have worked together co-operatively to ensure market integration. A corner stone of this approach has been the recognition of appropriate roles and responsibilities in relation to the regulation of BGE across the jurisdictions.

### **The ITO model is compatible with the GB market arrangements**

The DECC consultation suggests that the ITO model may not be compatible with GB market arrangements. We are not sure why DECC has arrived at this view, and suggest it cannot be in relation to concerns over the interconnector itself. In its Interpretative Note on the Directive, the European Commission has expressly envisaged that different models may be adopted for different TSOs.

Currently, the interconnector is used only to export gas to the Irish market<sup>5</sup>. The interconnectors are paid for exclusively by Irish consumers, and do not impose any costs on GB customers. Moreover, the flow over the interconnectors is determined by market conditions on the island. Therefore, the operation of the interconnectors themselves has no impact on prices in the GB market, or on competition in the GB market.

In consequence, the choice of model for the interconnector will have no impact on the GB market, and hence on GB customers or GB market participants. This is the logic behind the current approach to licensing the interconnector whereby the GB authorities have switched off certain licence conditions and left the primary regulation of the interconnector to the Irish regulatory authorities,

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<sup>5</sup> Annexe 2 sets out the implications were the interconnector to be bi-directional. We believe that even in this case, the ITO would remain in the best interests of GB consumers.

with co-ordination procedures in place and the ability to re-apply those conditions where the GB authorities to consider it necessary to do so.

In our view the key issue for the GB authorities in respect of the interconnector is one of compliance. It will be important for the GB authorities to be satisfied that the arrangements in place are fully compliant with the Directive, and are capable of being demonstrated as compliant to the satisfaction of the EC authorities.

We are confident that the single ITO model we envisage will be fully compliant with the Directive. We are also seeking to work closely with the regulatory authorities in the three jurisdictions to ensure compliance with the Directive, and a seamless approach to regulating the envisaged BGE entity. In this regard, we propose that the three regulatory authorities co-ordinate their regulatory oversight in a manner which avoids unnecessary duplication by means of an MOU or equivalent mechanism.

Such a mechanism would allow the three regulatory authorities to ensure that they are satisfied that the arrangements in place are compliant with the Directive while achieving the Directive's objectives of ensuring proportionate requirements are adopted to achieve efficient and economic operation of transmission systems. Finally, there will be a process whereby the European Commission will provide its opinion as to compliance of the proposed arrangements with the Directive.

Finally, if DECC is concerned that allowing the ITO model for consideration may result in parties other than BGE seeking to implement an ITO solution, there are other, less costly solutions, such as distinguishing between the models allowed for consideration for gas and electricity markets, or making the ITO model available only to gas interconnectors.

Given that the ITO model is one of the three valid options included in the Directive, we request that DECC allow accommodation of the ITO model to be made in order to further advance regional co-operation without incurring any unnecessary costs.

## Summary

The Irish interconnectors are critical for Ireland's security of supply. Anything affecting the cost and operation of the interconnectors will have significant impacts on Ireland's energy security of supply and energy competitiveness.

In arriving at our view that a common ITO offers the best outcome for consumers, we carried out a detailed assessment of the ITO and ISO models, and a 'mixed' model with an ISO in one jurisdiction and an ITO in another against key criteria driving the unbundling requirements in the Directive.

Our assessment shows that:

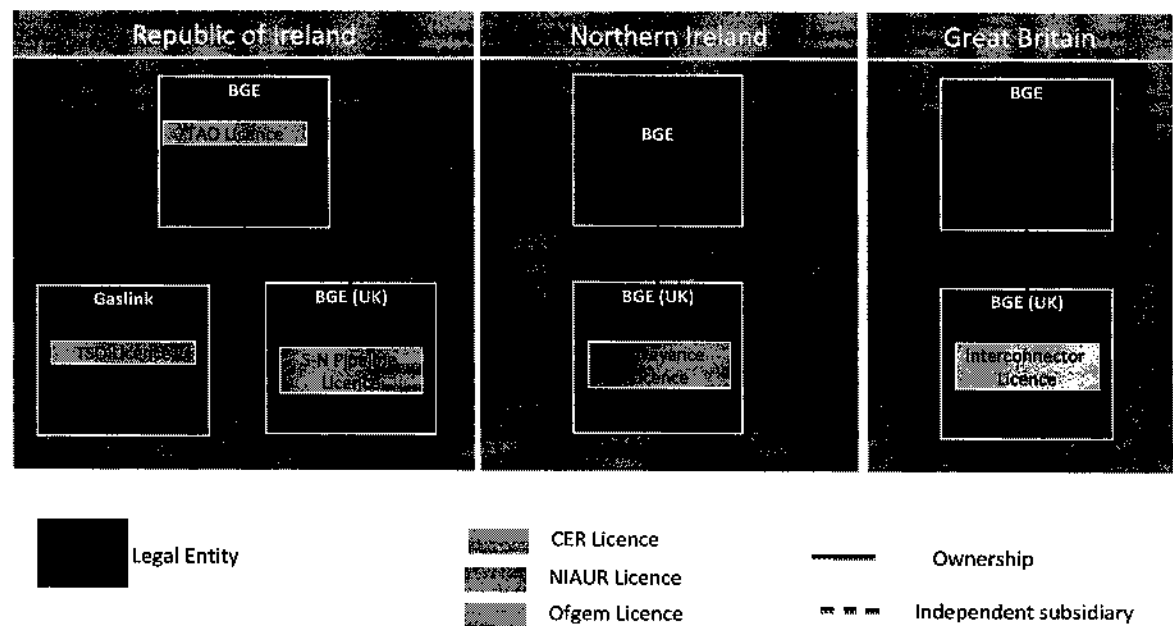
- Our vision of a common ITO model across RoI, NI and GB, fully compliant with the Directive, would have significant benefits.
- An alternative model (either full ownership unbundling or ISO) would add complexity both for shippers/suppliers and network operators.
- Such a model would significantly increase costs to Irish customers with no obvious benefit in GB.

Annexe 1: Current BGE Group Structure

BGE owns and operates transmission and interconnector assets in three jurisdictions:

- In ROI BGE is the owner of the gas transmission infrastructure and the South-North pipeline. Gaslink, an independent subsidiary operates the gas transmission system
- In NI BGE (UK) owns and operates gas transmission assets and the South-North Pipeline.
- In GB BGE (UK) owns and operates the GB elements of the IC1 and IC2 interconnectors.

BGE Group: Transmission Structure & transmission Licences in ROI, NI & GB



## **Annexe 2: Responsibilities of the GB Interconnector ISO**

This Annexe sets out the primary responsibilities of a GB Interconnector ISO. As noted in the main body of our response, the ISO model is relatively 'fat', and so a substantial organisation would be required to deliver the ISO's duties.

The principle functions of the ISO are set out in Article 14(4) of the Third Directive:

The ISO would be responsible for:

- Granting and managing third party access, including the collection of access charges and congestion charges;
- Operating maintaining and developing the transmission system; and,
- Ensuring the long-term ability of the system to meet reasonable demand through investment planning.

In practice, this means that the ISO would be responsible for delivering the following tasks:

**Safety & Quality (S&Q):** this function would develop appropriate safety policy and procedures and would monitor, audit and support. Key responsibilities would include ensuring the management of the company safety policy and safety management systems in addition to the management of the implementation and on-going reporting of the company Safety Statement.

**Commercial & Planning:** this would comprise Planning/ Local Area Planning to input into the Transmission Development Statement (TDS) which provides a seven year forecast of the demand, sources of supply and infrastructure requirements. This group would also work with the RAs to develop an overall security of supply standard for gas in Ireland.

**Shipper Operations:** the Shipper Operations Department would assist Shippers via a dedicated Key Account Management team regarding a wide range of technical and commercial issues in relation to the Inter-connectors. It would also be envisaged that the Moffat Agency function would also reside in an GB IC ISO. The Moffat Agent is the administrative function at the connected system exit point where the BGÉ Network connects to the National Grid Network. The Agent co-ordinates Shipper Nomination Matching, flow profiles and allocations for all Shippers registered with the Agent.

**Commercial Tariffs:** a new Commercial Tariffs function would be required by the GB IC ISO and would be responsible for the development and management of the IC tariffs, as agreed with the RAs.

**Projects:** the Projects function would be responsible for the planning and implementation of system and process changes agreed with industry and the CER.

**Grid Control / C&I / GTMS:** IC Grid Control comprises the 24 hour operation of the grid with responsibility for providing gas deliveries to meet Shipper needs as nominated through the Code of Operations procedures and also, co-ordination of emergency response to major incidents impacting Transmission level gas supplies. Communications and Instrumentation (C&I) comprises the operation of key systems to support network operation and maintenance, including SCADA / metering / C&I. The Gas Transmission Management System (GTMS) is the key system interface that Shippers have

from both an operational and commercial basis with the Transmission system. The system is the core interface between Grid, C&I and Shippers.

***The Market Arrangements function*** is responsible for liaising directly with industry and the development of the entry point arrangements at Moffat,. This function leads and drives necessary changes through the Code Modification Forum and oversees any modifications to the Code of Operations.

***The Technical function*** is responsible for delivering licence obligations to develop, operate and maintain the gas Transportation network in a safe, secure and efficient manner. It leverages-off international gas industry best practice to guide and direct the system operator on key technical issues and acts as the technical authority within the company.

***The Regulatory Affairs function*** is responsible for licence implementation, the licence compliance program and annual reporting requirements to the RAs. It also monitors standards of performance of any Operating Agreement and identifies gaps and potential risks, taking measures to rectify any identified issues if required. This function is also responsible for monitoring European legislative developments through attendance at industry forum meetings, periodical review etc. Regulatory Affairs also manages the strategic planning, risk management and annual business planning processes.

### **Annexe 3: Bi-directional interconnector**

If the interconnector were to become bi-directional, we also believe that the ITO model would be in the best interests of GB consumers.

First, as noted in the main text, the ISO model is significantly more expensive than the ITO model. In the event that the interconnector is bi-directional, it is likely that those high costs associated with an ISO model would be passed through to GB customers as a result of tariffs charged to shippers/suppliers selling gas at the NBP.

Second, a model in which the GB regulatory authorities were regulating (through the MOU proposed in the main text) a common ITO organization which operated in GB, NI and RoI would result in a more meaningful interaction by GB regulators with the entity responsible for the overall ownership and operation of the both the interconnector and the RoI transmission assets.

Under a standalone GB ISO model, the GB regulatory authorities would be responsible for the regulation of the entity with operational responsibility for the interconnector and onshore GB assets only. The arrangements by which the flow of gas into GB over the interconnector would be secured (i.e. the onshore Irish network) would be regulated by the Irish regulatory authorities.

The GB regulatory authorities have experienced this issue previously. Following its Gas Probe into the behaviour of imports over IUK, Ofgem noted that one of the issues in relation to the lack of gas imports during high price periods in the GB market may have related to the arrangements in Belgium and elsewhere on the continent, *over which they had no control*.

Under the common ITO model, the MOU would set out the way in which the three regulators would jointly regulate the common organization. As such, the GB regulatory authorities would have a more meaningful relationship with the ITO than with an ISO entity responsible for limited parts of the interconnector and which is subject to complex co-ordination and responsibility sharing arrangements with an Irish ITO.