

Jillian Ferris
Utility Regulator
Queens House
14 Queen Street
Belfast
BT1 6ED

14 June 2021

Dear Jillian

Re: Proposed Modification of Premier Transmission Limited Licence to allow Deferral of Capex Allowances

Thank you for providing firmus energy (Supply) Limited (feSL) with the opportunity to respond to this proposed Licence Modification. feSL supports efforts made to reduce the volatility of the annual reconciliation of Transmission Charges and are therefore supportive, in principle, of the intention behind the proposed Modification. However, it is important to consider if the mechanisms proposed within the Modification would have a material impact upon the annual reconciliation and ultimately achieve the underlying intention.

The consultation document poses a number of questions which feSL has taken the opportunity to consider as part of our response;

- *Do Respondents agree that UR should consider ways to reduce the volatility of the Postalisation reconciliation amount?*

As highlighted in the consultation document, the annual reconciliation of Transmission Charges can result in substantial reconciliation amounts. Whilst in recent years this has consistently resulted a bullet payment to Shippers, the unknown scale of the annual reconciliation amount is something that feSL has raised concerns about previously, to both the TSOs and the Utility Regulator. feSL would therefore strongly agree that the UR should consider ways to reduce the volatility of the Postalisation reconciliation amount, particularly with regards to the timing and line of sight for Suppliers and customers of such material swings in revenue/cost forecasts.

- *Do Respondents consider that the modification proposed is an effective way to deal with capital projects which get deferred into the following Gas Year?*

The consultation document demonstrates that the proposals could help to reduce the impact of underspends and therefore potentially reduce the volatility. However, it does not include any proposal to address potential overspends using a similar mechanism. In this respect, the current proposals appear to be asymmetric and therefore have the potential to introduce further volatility

to the process. We believe the proposal must consider a mechanism that addresses both under and over expenditure in any given Gas Year.

An important element for Shippers is the ability to anticipate/forecast potential year end reconciliations, particularly if such reconciliations result in an invoice. We would acknowledge that in recent years GMO NI has endeavoured to address this issue by publishing more information (quarterly) and providing a forecasted reconciliation throughout the Gas Year, however, as highlighted in the consultation document, historically, large proportions of the underspend relates to projects scheduled to take place in the summer time (i.e. Q4 of the Gas Year). As such, whilst GMO NI's efforts are welcome, they have not (and perhaps cannot) adequately address the significant volatility to which Suppliers remain susceptible. Estimating the scale of any reconciliation remains extremely challenging, if not impossible, until after the Gas Year end. It would be our understanding that seeking to defer capital expenditure into the following Gas Year would be the equivalent of carrying forward an over recovery of revenue from the current Gas Year. As such, a symmetric proposal ought to enable the carry over of any under recovered revenue. We believe the carrying forward of over and under recovered revenue would appropriately address the challenges of volatility and provide a fairer process for Suppliers (and their customers) to manage tariff volatility.

- *Do Respondents agree that the roll forward of the underspent forecast amounts should be limited to one year?*

As noted above, the primary objective of any solution must be a reduction in the volatility for Suppliers and their customers, however, the current proposals are asymmetric and are more favourable to TSOs than to Suppliers (or our customers).

In the event that revenue is rolled forward, feSL would agree that the underspent forecast amounts should be limited to one year. However, it is not clear from the consultation document if one year would have addressed historical underspends, i.e. how long were the special projects typically deferred for historically? If the special projects are deferred for more than one year then the proposed mechanisms will have limited impact upon the volatility of the reconciliation.

feSL would also seek clarity regarding the treatment of any potential interest associated with the revenue rolled forward, which under the current process would be immediately provided as a payment to Suppliers.

- *Do Respondents have any further views on how the volatility of the year end reconciliation amount can be managed?*

feSL acknowledges the underlying reasons for the mechanisms employed within the postalised regime; ensuring that actual required revenue is fully recovered within year and allowing for more favourable debt financing arrangements. However, we are of the view that ultimately the most appropriate mechanism to manage the volatility is a rolling under and over recovery mechanism, similar to the arrangements implemented elsewhere within the industry, e.g in the Regulated

Supply Tariffs and Distribution Conveyance Tariffs. In the absence of this mechanism, the requirement for clear and early communications with Shippers is of the highest importance, providing Shippers with a line of sight of potential annual reconciliations throughout the Gas Year, as the historical quantum is material to the ability to effectively manage our business operations. feSL would be supportive of any further enhancement in this respect.

feSL would welcome the opportunity to discuss this response in further detail with the Utility Regulator as soon as practicable.

Kindest regards,

A handwritten signature in blue ink that reads "K Kidd". The letters are cursive and somewhat stylized.

Kathryn Kidd
Regulatory Affairs Manager