



**Common Arrangements for Gas  
Draft Conclusions on Transmission Tariff Harmonisation in Ireland and  
Northern Ireland  
Phoenix Natural Gas Limited response  
November 21<sup>st</sup> 2008**

Phoenix Natural Gas Limited (Phoenix) welcomes the opportunity to respond to the conclusions paper on the Common Arrangements for Gas (CAG) Transmission Tariff Harmonisation in Ireland and Northern Ireland.

As we have detailed in our response to the previous consultation on this subject, we accept that an all island approach to the setting of transmission tariffs may potentially bring benefits to the natural gas industry and any regime that reduces the level of complexity that currently exists by having different methodologies in both jurisdictions is to be welcomed. However any change in regime must ultimately bring benefits to the Northern Ireland (NI) consumer and we would again reiterate that we could not support the introduction of a common tariff at any cost.

**Choice of an Entry Exit Regime**

Phoenix Distribution accepts that if the cost benefit analysis shows an all island transmission regime is cost effective for both jurisdictions and neither jurisdiction will be worse off than under their current regimes then the choice of an Entry Exit regime for NI seems the most appropriate. We also accept that Postalisation across the whole island would lead to increased costs for the NI consumer if it was the preferred method. We also agree that Postalisation does not provide the correct investment signals for future development of the networks.

However, we note that in assessing the Entry Exit regime against the criteria set by the Regulatory Authorities (RA) for assessing any new tariff regime that the 'Protection of Consumers' criteria states that in the short run Entry Exit would lead to less stable prices than Postalisation. We are unsure as to why this should be the case, as an Entry Exit regime could simply replicate the Postalisation methodology with the total revenue to be recovered in NI and volumes assumed to flow determining the charges at the Entry and Exit points. These charges should not be any greater than the single tariff determined under Postalisation. If a combined Moffat Entry point is

determined as the most cost effective methodology then, as the paper suggests, any increase in Entry charges for NI consumers could be offset by a lower Exit charge in NI to that set for RoI, thus eliminating any increase in transmission tariffs in NI.

Less stable prices even for a short period of time would not be ideal for a gas market like that in NI which is still very much in its infancy and has a significant amount of growth still to be realised. As the paper itself notes 'Short to medium term tariff volatility can have some negative impact on consumers and the chosen tariff regime should be mindful of this.'

The paper states that 'In reality in Northern Ireland, the structural move from Postalisation to Entry Exit should not have any particularly adverse impact on the market in terms of new investment or development of the industry'. Phoenix agrees with this statement and believes that this could be expanded to include the tariffs to be paid by the NI consumer. We therefore do not agree that marginal pricing should lead to higher prices in the short term or that it should create increasing tariff volatility when compared to the current Postalised regime.

One of the primary advantages noted in the paper for employing an Entry Exit regime is the benefit of providing sufficient investment signals for industry. The creation of an Entry Exit regime should incentivise producers to build a cheaper entry point and deliver gas cheaper than the marginal Entry point. Phoenix would however ask that the inclusion of any Entry points into the all island transmission system would be carefully assessed to ensure their introduction does not further significantly impact on IC utilisation and worsen the situation for NI, who will increasingly be required to transport gas through the ICs.

We note the paper refers to the benefits for NI of cross jurisdictional flows with the move away from Postalisation, however we would seek further clarification from the Regulatory Authorities that the development of the all island regime will include the ability of NI to avail of the cheaper indigenous gas sources within Ireland both available now and in the future.

### **Choice of asset configuration at Entry**

We believe that the most important driver for agreeing the asset configuration at Entry, and more specifically at Moffat, must be the operational savings that could be achieved. The mitigation against IC under utilisation which would ultimately result if a combined Moffat configuration was the preferred choice should not be allowed to be the determining factor.

Having considered the Network modelling results presentation, published on the Utility Regulator's website, Phoenix does not believe that sufficient information has been made available to allow us to fully assess if significant operational savings will be realised for the NI consumer by combining the Moffat interconnectors. Irrespective of whether the interconnectors are

combined or not an additional IC inventory product was always going to result with the introduction of Corrib and Shannon LNG as the ICs became under utilised and as the network analysis has concluded that this is the primary benefit of combining the Moffat entry points Phoenix is unsure as to how this would bring significant additional operational benefits to NI.

If limited operational savings are to be made in a combined Moffat entry point we believe that keeping the SNIP and ICs pipelines separate would be the best solution for the NI consumer. NI would continue to transport the majority of gas across the SNIP and would only use the ICs when SNIP capacity was not available. NI would then pay the higher transportation charges for IC utilisation for the additional marginal gas that it needed to deliver. This would ensure that the impact on the under utilisation of the ICs does not disproportionately impact on the overall transmission tariff of all gas delivered to NI and would perhaps simplify the determination of what the paper describes as a 'potentially complex counterfactual and subsequent revenue transfer mechanism' which will be needed.

Phoenix would still like to understand further what assumptions have been made for the NI counterfactual in the cost benefit analysis. In particular we feel that further information needs to be made available to industry on when NI is assumed to utilise the ICs and the volumes assumed to be transported. Without this information it is difficult to determine which asset configuration at Entry would give the most favourable solution.

We would point out that any regime which leads to large over recovery of revenue which then has to be returned to shippers creates instability and is unhelpful in a developing gas market.

## **Producer Margins**

The paper states that a disadvantage of a combined Moffat is that the price differential between entry points would decrease and would lower producer incentive. Phoenix would ask if this is a negative thing. We agree that a margin needs to exist to encourage future development of the network if it brings increased security of supply but we do not feel it is appropriate to develop a regime to ensure producers profits are always realised and are as high as possible.

## **Choice of asset configuration at Exit**

Phoenix notes that the Regulatory Authorities are minded to implement two separate Exits points, one in each jurisdiction. As mentioned in our earlier response on the most appropriate number of Exit points, we believe that an Exit point in each jurisdiction allows for revenue transfers to occur which we feel will be essential to ensure the NI consumer is not worse off as a result of IC under utilisation. In particular the use of the South North Pipeline by RoI shippers will require a system to be developed where any revenues generated

will be returned to NI for the benefit of NI consumers. The choice of separate exit points in RoI and NI will allow for such a methodology to be developed.

### **Significant Legislative Changes**

In addition to the significant changes required to implement a new Entry Exit regime on an all island basis in Transportation Codes and ancillary documents which support them we note that significant legislative changes will be necessary in NI to facilitate the move away from Postalisation. Phoenix would once again ask if the timescales set of October 2010 for delivering a harmonised transmission tariff and operational regime is still achievable given the time involved in obtaining changes in legislation.

In addition, the paper recognises that the significant change in the NI regime being considered 'most likely requires considerable work and resources in Northern Ireland, especially since the regime has operated successfully to date' Phoenix would therefore ask the RAs to clarify if development costs incurred by each business will be allowed to be recovered.

### **Mitigating the effect of low utilisation of the ICs**

Having considered the conclusions paper assessment of mitigating the effect of the ICs under utilisation going forward we believe that there are still too many unknowns to allow us to make an informed assessment on the most appropriate methodology to deal with this issue. We do still believe that this is ultimately a RoI issue that needs a RoI solution and once the most appropriate solution has been determined the full impact on the all island project needs to be measured and consulted upon. We would however reiterate our earlier point on the choice of Entry configuration at Moffat that the method chosen should not be driven by the need to address under utilisation of these pipelines.

### **Capacity Commodity Split**

We note that the conclusions paper does not consider the issue of capacity commodity split as a first order issue. Although we agree with this assessment we would like to reiterate while the NI gas market is still being developed with the majority of forecast growth coming from the domestic sector we feel that any move to increase the proportion of the transmission tariff associated with capacity would be to the detriment of the gas industry development in NI. We note that this view was shared by other respondents to the initial consultation and therefore we are still strongly of the view that the current capacity/commodity split should be altered to a 50/50 split.