



15th June 2012

Roisin McLaughlin,
Queens House,
14 Queens Street,
Belfast,
BT1 6ED.

Re: Consultation on Tariff Arrangements for Short-Term Daily Capacity and Virtual Reverse Flow products in Northern Ireland 18th May 2012.

Dear Roisin,

BGE (UK) welcomes the opportunity to respond to the 'Consultation on Tariff Arrangements for Short-Term Daily Capacity and Virtual Reverse Flow products in Northern Ireland' issued on 18th May 2012 and would like to comment on the following sections of the consultation:

Section 3 Treatment of Revenue from New Products

Section 3.4 states that the Utility Regulator wishes 'to ensure that anyone utilizing the new short-term and VRF products also pays a postalised charge on exit'. However, under the arrangements proposed in the consultation this would not be achieved as any gas which enters NI and subsequently exits NI via any of the VRF services will not pay the NI postalised exit charge, but would only be liable to a VRF registration fee.

Section 5 Short-Term Capacity Tariffs

The consultation proposes that the current multipliers in ROI will be adopted for NI on the basis that these were consulted on as part of the CAG project. The CAG consultation paper proposed that the ROI 'methodology' be adopted while also adopting the ROI multipliers for use in NI. While this would be the approach for an all-island gas market where common multipliers would apply to the entire market, it may not be suitable in this instance.

At present there are two markets with different tariff arrangements in each. The current multipliers in ROI are being reviewed by the CER and may change for the start of the 12/13 Gas Year. The ROI multipliers are designed to reflect the probability of incremental demand for capacity in a particular month, thereby sending Shippers a price signal that reflect the potential costs they are imposing on the ROI system through their decisions to flow gas at various times. BGE (UK) would be of the view that the NI multipliers be designed to reflect the probability of incremental demand for capacity in a particular month, thereby sending Shippers a price signal that reflect the potential costs they are imposing, to ensure that the multipliers being adopted are appropriate for the NI network.

Section 6 Virtual Reverse Flow Tariffs

The consultation proposes an annual registration fee with no capacity or commodity charges for Shippers who wish to avail of a VRF service in NI. BGE(UK) believe that cost-reflective charging arrangements should be put in place, with a capacity and commodity charge for VRF which reflect the costs involved in providing the service.

BGE (UK) is concerned with the following issues which would result from such an approach:

- Cross-subsidies will be created: Forward-flow shippers have to pay Capacity and Commodity charges based on their booking and flows. Therefore, for forward flow Shippers the tariffs are designed to recover the asset-owners allowed revenue while reverse-flow shippers would pay an arbitrary registration fee allowing them to use the same pipeline.

- There is no incentive for Shippers to optimize their booking behavior in order to use the network efficiently. Once the registration fee is paid by the first Shipper, it can book all the available VRF capacity available regardless of whether it is required or not.

Shippers can bring gas into NI and virtually exit from NI and back into the UK without paying any entry or exit charges other than a £5,000 registration fee. Except for network constraints, there is no limit to the frequency at which this can occur.

Annex 2 Example Charging Methodology Statement

For clarity, the daily capacity charge formula should be re-stated as follows:

$$MPDCC_m = \sum DCA_m \times (M_m \times FPCapC)$$

BGE (UK) are available to meet with the UR to discuss the above at your convenience. In the mean time if you have any questions on the above please contact me at your convenience.

Yours sincerely,



Denis Twomey,
Commercial Manager
Bord Gáis Networks

This response is made by Bord Gáis Networks (BGN) acting on behalf of BGE (UK) Ltd.