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Dear Roisin

Consultation on Tariff Arrangements for Short Term Daily Capacity and Virtual Reverse Flow Products in Northern Ireland

Phoenix Natural Gas (PNG) welcomes the opportunity to respond to the above Utility Regulator's (UR) consultation on tariff arrangements.

PNG continue to be fully supportive of the Utility Regulator (UR) in its attempt to address the infringement action taken by the European Commission in order to prevent significant fines being received. We also recognise that the timescales in which UR and industry have to address these issues are extremely challenging and many of the proposals to be implemented are not the optimal solution or indeed bring true benefits to both industry and consumers in their current format. We therefore would encourage UR to continue to develop proper meaningful solutions to some of the issues being addressed beyond the short timescales available to address the infringement action.

We believe this is particularly important in relation to the proper inclusion of these products into the TSOs licences and the Postalised tariff regime as well as delivering cost effective products which all shippers can avail of and from which the NI consumer can benefit from.

PNG do however recognise that the integration of the products in their current format into the Postalised tariff regime is not ideal. The consultation paper does note that the current Postalisation conditions contain provisions in the event of non payment of Postalised charges which ensure TSOs receive their revenues, and whereby all gas suppliers are liable for any debts owing. It would seem to PNG that extension of the

current provisions to include the new daily capacity and virtual reverse flow products would be inappropriate at this stage particularly for shippers who operate within distribution networks who will not be able to avail of short term capacity products given that they have no firm capacity contract paths as the Distribution Operator holds all Postalised Capacity on their behalf but who could be exposed to debt accrued by shippers who can utilise and benefit from the products. PNG believe it is important that any shipper availing of these products should provide sufficient credit cover to support their activities and any debt accrued is recovered from the offending party. We do note that the Proposed Modifications issued by BGTL and PTL propose inclusion of credit support for these activities and this is something PNG would support. It is also essential that BGTL, PTL and BGE (NI) have robust systems in place to regularly review the credit support levels of any shipper to ensure sufficient cover for these activities is always available to them in the event of default.

PNG also note that for the purpose of determining the Postalised Tariff zero forecasting for these products is included. However we further note that the shipper flowing gas utilising a short term capacity product will be subject to the normal forecast Postalised commodity charges. Based on the proposed Licence modifications we assume that this is subsequently reconciled using the actual Postalised commodity charge determined at gas year end and any over or under-recovery is dealt with using normal Postalised reconciliation rules. PNG believes that given that zero forecasting is proposed for the purpose of determining the tariff we would ask if this proposal ultimately leads to increased inaccuracies in the published tariff. We assume that UR and the TSOs have considered the magnitude of this inaccuracy in determining this as an appropriate approach.

Having considered the proposed short term capacity multipliers, PNG would ask if they have the potential to impact on longer term firm capacity bookings and ultimately increase the overall Postalised tariffs. For example a shipper who has a flat profile and is not subject to large variances between winter and summer gas usage profiles may chose to reduce his overall firm capacity booking and avail of the cheaper short term capacity in both the shoulder and summer months. PNG are assuming that UR and/or the TSOs have properly modelled the implications of these proposed multipliers and their potential impact on the overall Postalised Tariffs.

In summary PNG are supportive of the attempt to put in place processes which remove the threat of penalties as a result of EU infringement actions but we strongly believe that UR should continue to work with industry to deliver improved long term viable solutions which all shippers and ultimately consumers can benefit from. It is also particularly important that any agreed tariffs do not negatively impact on the current regime.

If you have any questions regarding the Phoenix Natural Gas response please do not hesitate to contact me.

Yours sincerely

Joanne

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