



## **Exit Capacity Review for Northern Ireland Gas Transmission**

### **Call for Evidence**

#### **Phoenix Natural Gas Ltd. Response**

**12<sup>th</sup> May 2016**

#### **Introduction:**

Phoenix Natural Gas Ltd. (PNGL) welcomes the opportunity to provide comments on the Call for Evidence document issued by TPA Solutions at the request of the Utility Regulator.

PNGL feels it is important to detail from the outset the objectives which it believes any change in the gas regime must deliver. These include:

- Objective 1: The gas industry is allowed to develop and realise its future potential growth
- Objective 2: Existing and future gas customers are not negatively impacted by change
- Objective 3: Any regime change must not introduce uncertainty and /or instability into future network charges.
- Objective 4: Fair and equitable treatment of network users with regards obligations and liabilities.
- Objective 5: Regime changes are determined to bring operational and cost benefits to all industry participants.
- Objective 6: One sector's benefit must not be to the detriment of other industry participants.
- Objective 7: Although PNGL are supportive of co-operation and consistency in approaches, if appropriate, across utility industries, the gas regime should not be used to deliver solutions for the electricity market where obvious deficiencies in this regime exist and are well known.
- Objective 8: Regime changes are not introduced prematurely. Consideration should be given to further potential changes which may provide alternative solutions.

Having considered the TPA Solutions document, PNGL believes that the assessment undertaken of the introduction of short term capacity (STC) products at the exit points in Northern Ireland appears comprehensive and has captured effectively many of the implications of the exit capacity reform proposals. PNGL believes that the key objectives it has set out above have been considered in the paper when responding to the case for reform set out primarily by the power generation sector. We do however expand further on our thoughts on several of the objectives in the remainder of this document.

**Objective 1: The gas industry is allowed to develop and realise its future potential growth**

**Objective 2: Existing and future gas customers are not negatively impacted by change**

**Objective 3: Any regime change must not introduce uncertainty and /or instability into future network charges**

PNGL believe that the first three of the objectives detailed above are inextricably linked and are possibly areas where the 'Call for Evidence' document could have given further consideration to.

All Distribution System Operators (DSOs) in Northern Ireland are targeted with developing the natural gas industry by maximising both the volume throughput and the number of connections to their networks, with a robust and stable gas transportation regime critical to assisting in the delivery of this. The regime must produce workable, uncomplicated processes as well as stability in gas transportation tariffs to encourage shippers to participate in the market and encourage consumers to invest in the product. Proposals which lead to uncertainty in operator cashflows, which have the potential to create large over or under-recovery of revenues resulting in fluctuating tariffs, will discourage market participation, damage consumer confidence, and therefore will restrict future network growth.

It should be noted that if the growth on DSO networks is not realised then costs to all gas industry participants may rise and therefore the assumption being made that 'gas customers may not necessarily experience any increase in gas costs' as stated in the case for the reform is incorrect.

It should also be noted that the current transmission regimes use of bullet payments and receipts has been often criticised by power generators as ineffective and therefore it seems strange to PNGL that the STC proposals which will create further uncertainty in operator cashflows leading to potentially larger reconciliation amounts is now considered appropriate by this sector.

**Objective 4: Fair and equitable treatment of network users with regards obligations and liabilities**

If STCs are to be introduced into the NI transmission exit regime then it has to be done on a fair and equitable basis. This status can only be achieved if all industry participants are able to secure their individual capacity requirements. To facilitate this, the current DSO obligation to book and hold a 1 in 20 peak day firm capacity will need to be removed with responsibility passed to shippers. PNGL believe it is worth remembering why the introduction of the DSO obligation was considered appropriate. Reasons included:

- Supporting the introduction and development of supply competition by removing complexity from the capacity booking processes
- Prevent the hoarding of capacity by incumbent or larger shippers
- Prevent the double booking of capacity which would increase costs to gas consumers

PNGL believe all of these reasons are still applicable.

The paper indicates that the 1 in 20 booking obligation could be passed to shippers. PNGL consider the 1 in 20 peak day capacity obligation as a robust approach but should the same obligation pass to

shippers operating in DSO areas it may be considered by them as inequitable if power generators are not obligated to do the same.

In addition to its assessment set out above that the reasons for the DSO capacity booking obligation are still valid, PNGL would reiterate that from a DSO perspective it is also essential that network growth continues and it could be argued that the DSO is best placed to determine the anticipated level of growth and ensure sufficient exit capacity is held on the NI transmission networks to facilitate this growth rather than this becoming a shipper obligation.

**Objective 8: Regime changes are not introduced prematurely. Consideration should be given to further potential changes which may provide alternative solutions**

The paper advises that the new ISEM proposals may resolve some of the power generator concerns regarding their ability to recover their fixed costs and therefore the use of STC products to try and resolve the issue is premature. PNGL strongly agree with this assessment and also believe their introduction would be premature given that the Northern Ireland transmission regime has only recently introduced STC products at entry and their utilisation and impact on the Northern Ireland gas market has still to be determined. PNGL understands that in GB the introduction of an exit capacity system which was in line with the entry regime happened many years following the introduction of the entry processes for these reasons. PNGL would also argue that had it not been for an EU compliance requirement the entry regime now in place would also have been determined as unnecessary given the size of the Northern Ireland gas market.

**Capacity Booking Responsibility**

The Call for Evidence paper does specifically ask if DSOs might prefer it if those shipping to downstream consumers take on the capacity booking responsibility and we have hopefully set out above the reasons why we still believe it is necessary for the DSO to retain this obligation. However we do feel it is essential to clarify our position regarding this role. PNGL is willing to continue to facilitate this service for shippers as currently set out in its licence obligation but we cannot and will not accept any further responsibilities or liabilities associated with booking capacity using short term products or participating in capacity auctions to facilitate this. This type of activity is outside the remit of a gas distribution operator who does not have the necessary resources or skill set within its current organisation to facilitate this.

**Summary**

As detailed above, PNGL believes that TPA Solutions has appropriately assessed the case for exit capacity reform in the Call for Evidence document. Based on the information provided and its own further considerations on the impact on network growth we agree with the recommendations that exit reform in the form of the introduction of STCs is not required and would have an overall negative impact on the developing natural gas industry in Northern Ireland.