Mutual Energy Limited
First Floor The Arena Building
85 Ormeau Road, Belfast BT7 1SH
Tel: +44 28 9043 7580 Fax: +44 28 9024 9673
Web: www.mutual-energy.com

Roisin McLaughlin
The Utility Regulator
Queens House
14 Queens Street
Belfast
BT1 6ED

27th May 2016

Exit Capacity Review: Call for Evidence

Dear Roisin

Mutual Energy Limited (MEL) is grateful to have the opportunity to respond to this consultation on behalf of its three wholly owned subsidiaries Premier Transmission Limited, Belfast Gas Transmission Limited and West Transmission Limited (formerly Northern Ireland Energy Holdings Limited) which hold licences to convey gas granted pursuant to the Gas (NI) Order 1996.

Please note, this response is not intended to answer the specific questions asked but shall address some of the issues raised.

Assessment

MEL welcomes the approach the Utility Regulator has taken with regard to the Exit Capacity Review. It is an important principle that decisions which would result in fundamental changes to the gas transmission regime should be supported by evidence. We believe the consultation paper prepared by TPA Solutions (TPA) has covered the key areas required by this assessment.

Drivers for Change

The paper provides a good summary of the arguments for and against change. MEL is aware of the challenges faced by the Power Generators and welcomed the opinions shared during the Exit Regime Review Stakeholder Workshop held on 2nd March. One the key considerations identified during that workshop are the potential changes to the electricity market as a result of I-SEM. Given the interaction between the gas and electricity markets, MEL understands that change in one market, or lack of, may have an impact on the other. However, as the paper notes, change in one market should not necessarily drive change in the other, particularly if it could be to the detriment of the existing market participants. For example, a potential risk to gas consumers by introducing short term exit products is the reallocation of costs, increasing costs for domestic gas consumers. As I-SEM has not been implemented and the impacts are not fully understood, it could be considered as premature to make changes to the gas regime at this time to accommodate I-SEM. It may be more appropriate to review the exit capacity arrangements once I-SEM has been established. MEL are prepared to participate in any future review.

In addition, one of MEL's key observations from the aforementioned workshop and the paper is that there does not appear to be any appetite for change to the exit capacity regime from Distribution Shippers.

Exit Ratchet Mechanism

In the consultation paper TPA, have identified some issues around the exit ratchet mechanism. The exit ratchet mechanism was introduced to address the scenario where a Shippers exit allocation exceeds its exit capacity booking. In this scenario, a Shipper's annual exit booking would increase by the ratchet amount. The rules allow for a Shipper to book a minimal amount or no exit capacity in advance of the year and 'ratchet up' throughout the gas year. We agree with TPA's statement that Shipper's have no commercial incentive to book their peak day requirements and may even book lower levels of exit capacity during the application window. An issue occurs if Shippers plan to use the exit ratchet mechanism but subsequently they do not provide a forecast including the anticipated ratcheted amount during the tariff setting process. This can lead to inaccurate signals, fluctuations in annual tariffs and large reconciliation amounts at the end of the gas year. As identified in the paper, recent licence changes should address the tariffing issue. If they do not, MEL agree with TPA's assessment that the exit ratchet mechanism should be reviewed with a view to incentivise more accurate forecasting.

Implementation of Changes

An important consideration is the feasibility of delivering any changes. The effort to implement a change such as new short term products at exit points should not be underestimated. A change of this nature would require amendments to conveyance licences and network codes. In addition, changes would be required to the Transmission System Operator (TSO) IT system to facilitate these new products and invoicing arrangements. Complex IT system changes would be required to allow exit capacity to move with customers which would involve information transfers from Distribution Network Operators to TSOs. In addition, if PRISMA was chosen as the platform for allocating the products, contractual and IT system changes would also be required. To make changes of this nature, it is vital that a project plan is developed and a sufficient budget is agreed in advance to cover the implementation costs, which given the magnitude of the changes we anticipate would be significant. As neither of these exist currently and as resources are allocated to delivering the Single System Operator project, other than a tweak to the exit ratchet mechanism, the introduction of short term products would not be feasible prior to October 2017.

Conclusion

MEL understands that market participants have different requirements and acknowledge that it is not possible to design a regime that provides a 'one size fits all' solution. Given the lack of consensus from Shippers on the matter, the uncertainty over I-SEM arrangements and the non existence of a project plan and budget, other than a potential tweak to the exit ratchet mechanism, MEL do not support making any significant changes to the exit capacity regime at this time.

Should you wish to discuss any aspect of our response please do not hesitate to contact me.

Yours sincerely

Stephen English
Gas Contracts Manager