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Networks Compliance Branch
Utility Regulator
Queens House
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29th August 2018

Consultation on the Harmonised Transmission Tariffs for Gas

Dear Jillian,

GMO Northern Ireland (GMO NI) is grateful to have the opportunity to respond to this consultation as the single gas market operator for the transmission network in Northern Ireland, a collaboration of the four Transmission System Operators (TSOs).

GMO NI support the need to comply with the Network Code on Harmonised Transmission Tariff Structures for Gas ("TAR NC"). We note that many of the required changes have been implemented as part of the Network Code on Capacity Allocation Mechanisms updates in advance of October 2015 so are not anticipating significant market change in advance of May 2019. However, we have a responsibility to the NI consumer of ensuring that any changes made as a result of the TAR NC do not adversely impact the Northern Ireland gas transmission market.

Questions

Question 1: We are interested in respondents' views on whether the postalised regime meets the requirements of a Reference Price Methodology, as outlined in paragraph 4.5. Specifically, do respondents consider that the postalised regime enables network users to reproduce the calculation of reference prices and a forecast for future years?

We share the view that the postalised regime can be maintained as the Reference Price Methodology in compliance with the TAR NC. The operation of a postalised tariff system for the Northern Ireland gas transmission network has been in place since 2004 and has ensured that the charge for transporting gas along the designated transmission network is the same irrespective of where the gas is off-taken for final use. The postalised regime is underpinned by a detailed financial and legal structure to support the operation of the system.

This methodology is also supported by the existing Postalised System Administrator (PSA) mechanisms which facilitates the revenue transfers between TSOs to enable common tariffs to be applied over a network where there are currently four TSOs. This is a significant component of the administration of the NI arrangements which are in place to deliver a postalised charging arrangement, and this is embedded in the licence, the support contracts and in the systems and operations of the TSOs and GMO NI.

We strongly support the view that the postage stamp cost allocation methodology is the most suitable method given the nature and size of the NI gas network. The straight forward nature of a postalised network also aids replication of tariffs for network users to enhance predictability year on year.

Any movement away from postalisation would be a lengthy and costly process, requiring a change in government policy and legislation along with significant changes to the network codes and transmission licences and therefore implementation in advance of May 2019 would not be feasible.

Question 2: We are interested in the views of respondents about the indicative reference prices provided in Table 2.

The indicative reference prices in Table 2 are in line with those published by GMO NI on 31st May 2018. GMO NI intend to note the entry points and exit points to which these prices apply in their publication of the tariffs and would encourage the Utility Regulator to do the same under Table 2 in order to enhance transparency for network users.

Question 3: We welcome views on our proposal to change the capacity commodity split to 95:5. Are there any other factors regarding this change that we should consider?

The TAR NC is clear on the requirement that tariffs should be capacity based with the exception of recovering costs primarily driven by the volume actually flowed. Therefore, we think it would be difficult to justify maintaining a commodity charge set to recover 25% of revenue. A lower commodity element should be more representative of the variable costs associated with the volume actually flowed in line with the requirements of the TAR NC.

However, the impact of such a change on NI network users should be carefully considered by UR. We note the UR analysis that, should the commodity element be reduced from 25% to 5%, there would be 3-5% of revenue collected from power stations moved to gas consumers as a result based on data from GY18/19, GY17/18 and GY16/17. However, it should also be noted that this transfer of costs can fluctuate depending on the load factor of a particular user in any year and indeed the introduction of iSEM may reduce the power stations load factor and therefore may impact this transfer further.

Question 4: We are interested in respondents' views on whether the proposed commodity charge meets the requirements outlined in paragraph 6.2, specifically, that the charge would be set to recover the costs mainly driven by quantity of gas flows.

We support a reduction in the commodity element in order to achieve compliance with the TAR NC but consider the TSOs to be in a better position to comment on the appropriateness of the 5% commodity level in light of their costs which are driven by quantity of gas flows.

Question 5: Do respondents consider that the information published alongside the postalised tariff provides the information listed in paragraph 6.1?

We believe the simplified tariff model published by GMO NI alongside the tariffs in advance of each gas year should provide the information required under paragraph 6.1.

Question 6: We welcome respondents' views on whether the services provided by TSOs do include an elements of non-transmission services, or should the services continue to be solely classified as transmission services?

GMO NI support the view that the current services provided by the TSOs should be classified as Transmission Services.

Question 7: We are interested in respondents' experience of the seasonal multiplier factors for non-annual entry capacity in the last two Gas Years.

GMO NI support the use of non-annual entry capacity seasonal multiplier factors.

Question 8: We welcome views on the aspects listed in paragraph 7.15, particularly with regard to the balance between facilitating short-term gas trade and providing long term signals for efficient investment in the transmission system. Specifically, do respondents agree with our proposal to maintain alignment with the factors offered in RoI?

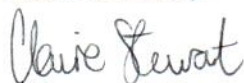
GMO NI support the use of non-annual entry capacity seasonal multiplier factors.

Question 9: We would ask the respondents to share their view as to whether the transmission charges publications outlined in the table above are sufficient to allow Network Users to better understand the transmission tariffs and the costs underlying them, as well as to estimate their potential evolution beyond the current tariff period.

We understand that the publications should provide sufficient information to allow network users to better understand the transmission tariffs and costs underlying them. If users believe there to be further information that would be helpful, we would be happy to consider and discuss.

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

Yours sincerely



Claire Stewart
Finance Manager

