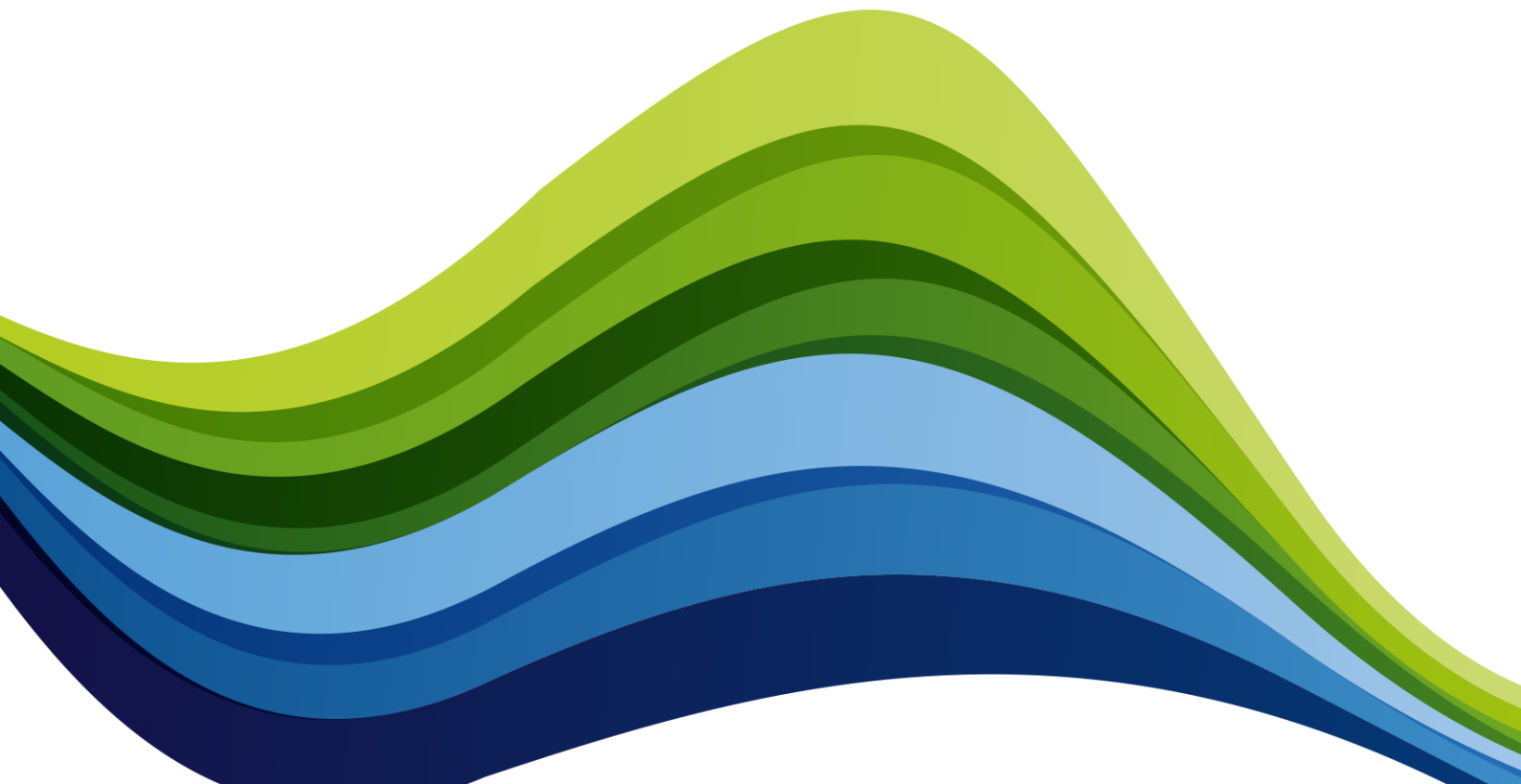

SSE Airtricity Response to the Consultation on Harmonised Transmission
Tariffs for Gas



Introduction

SSE Airtricity welcomes the opportunity to respond to this consultation regarding the implementation of Regulation 2017/460: Network Code on Harmonised Transmission Tariff Structures for Gas (TAR NC). This is one of four Network Codes implemented by energy regulators, which have been developed by the European authorities in order to promote the EU Target Market, thereby benefitting consumers across the EU.

SSE Airtricity is one of the largest gas Shippers and Suppliers in Northern Ireland and is supportive of the aims of the target market. In complying with the published Network Codes, it is important to bear in mind that discharging the full requirements of these codes within the Member State and considering any reform of the current regime, should be backed up by a full impact assessment of the proposals.

Executive Summary

Below we have provided a response against the nine questions outlined in the consultation paper. We have additionally provided some comment against the published Annex 2 which discusses the counterfactual methodology.

In summary we have raised the following key comments:

1. We understand that UR does not have a large level of discretion regarding the capacity-commodity split. However, we would have expected an impact assessment of different customer profiles¹ associated with arriving at the decision for 95:5, as opposed to any other volume, such as the ROI 90:10 capacity commodity split.
2. The consultation lacks detailed justification and assessment underpinning the primary proposals. For instance, the rationale for the proposed 95:5 split, robust justification for why the postalised regime continues to be suitable, and justification to not consult fully on all aspects of the TAR NC.
3. Separately, we are concerned that there has been no sufficient analysis and comparison done of the proposed methodology against the counterfactual, as required by the TAR NC. Specifically, it would have been beneficial if the UR had published a simplified model (e.g. an excel file or in any other format), which would have provided transparency on various inputs used in the model and impacts of various scenarios on different customer groups. This is a requirement under the TAR NC in terms of information to be published prior to the tariff period. Making this model publicly available would have provided an opportunity for market participants to analyse the proposed postage stamp solution, and any implications of using this methodology from TAR NC perspective.
4. In Annex 2, we consider that there are specific gaps in UR's assessment: analysis on the storage discount, should IMSL² materialise, tariffs for virtual reverse flows, and the IP tariff for Gormanston. In addition, there is no detailed impact assessment in the consultation (or Annex 2), of the impacts against different customer groups. This is despite the fact that under Chapter 3, UR details its objective in the paper, to consider the impact to different customer groups. Further to this, there is therefore no development of impacts under different scenarios, (for instance to explain the rationale for not aligning with ROI capacity commodity split of 90:10).

¹ E.g. domestic, industrial and powergen

² Islandmagee Storage Limited

5. We consider that the assessment in Annex 2 and the map in Appendix 2 of the paper, are not consistent with each other. The purpose of the Tariff Network Code is to develop a methodology that recovers the revenues associated with the TSO Regulated Asset Base (RAB). We understand this to be from the Twynholm IP. However, indicative tariffs in this paper have been calculated from the Moffat IP. Clarity on this would be helpful.
6. Finally, the exit tariff differentials indicate that locational signals exist within the counterfactual, as per Table 7 of Annex 2. The potential economic usefulness of such locational signals has not been explored in the consultation paper. There are synergies with other energy matters, such as the SEM Committee's proposed Best New Entrant (BNE) and plant closures more generally in Northern Ireland, that point to such locational signals having potentially positive outcomes for energy customers, through encouraging generation development in certain areas. The consultation provides limited rationale for continuing with the Postage Stamp approach. However, in light of the requirement to compare a chosen methodology to the Capacity Weighted Distance (CWD) at an EU level, and the standing of the TAR NC as an EU Regulation, the UR's decision paper would benefit from a more robust rationale as to why the Postage Stamp approach, and not the CWD, continues to be the most appropriate for Northern Ireland.

SSE Airtricity Response

We welcome this opportunity to provide comments regarding the integration of the TAR NC into the existing NI tariff regime.

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?

While the postalised regime enables network users to reproduce the reference prices, in our view, focusing solely on this aspect of the TAR NC methodology requirement, is not sufficient.

Whilst it is valuable for tariffs to be replicable, it is equally important that the development of the methodology for setting these tariffs is transparent and can be appropriately scrutinised. During the consultation process, there has been no model available, therefore, the process has not allowed for a stakeholders' review and analysis of the model inputs, outputs and impacts. Given this limitation, it isn't possible to establish whether the proposed tariff methodology is equitable in terms of network cost recovery across different type of users. It is this feedback that should drive the UR in determining an equitable tariff methodology that is balanced in terms of cost recovery across all network users, (as per Article 13, Regulation 715/2009/EC).

Furthermore, UR appears to rely on the Energy Order and this legislative basis, in determining that the postalised regime is still appropriate. The TAR NC is a directly applicable Regulation which applies across all Member States regardless of specific national legislation. The Regulation requires that a counterfactual is used as a comparison against an existing regime, therefore, we anticipated that the consultation would have provided a robust justification of the Postage Stamp approach, as part of this assessment.

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

The indicative reference prices themselves are innocuous. There has been no methodology, assumptions or inputs provided, therefore, we have no specific comments against these proposed prices. However, we find it confusing that the indicative prices for 2018/19, appear to jump considerably (see Annex 2, Table 7), for the forecast postalised tariff for 2019/20³. There is no methodology behind Annex 2 inputs and assumptions, either. We would welcome clarity on this.

The publication of a model which could flex key inputs such as revenues, capacity-commodity split, entry-exit split, and demand forecasts would assist stakeholders in reaching more informed conclusions. As it stands, all that stakeholders can comment on is the output, and this does not represent a robustly tested methodology. Given that it is Shippers that ultimately pay these tariffs, it would increase transparency (a key factor of the process), if participants were able to fully manipulate the models to test different scenarios.

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?

We have provided below, a high-level suggestion of the scenarios that could be modelled, to strength test the 95:5 proposal, consider the impacts of the entry-exit split on this change, and provide rationale for 95:5 as opposed to the ratios currently used in GB and ROI. See Table 1, below.

We note that under *Implementation requirements* in Chapter 3 of the consultation, UR indicates its commitment to consider the impact to different customer groups and discharging statutory duties. We consider that without providing a clear rationale, impact assessment and justification in this consultation, these two functions have not been delivered.

Modelling change from 75:5 to 95:5

We understand that the Network Tariff Code is unambiguous in terms of prescribing that the majority of revenues must come from capacity-based tariffs, (as per the consultation). This is on the basis that the majority of costs are driven by capacity i.e. pipelines and compressors, regardless of the level of flows that arise. As mentioned, the proposal for 95:5, discharges this requirement.

Whilst we understand that the majority of costs must be recovered from capacity charges, there is no detailed assessment undertaken of this significant change. For example, we would expect the UR to model the impact of the 95:5 split against different customer profiles, which in turn have different capacity bookings requirements. The would provide an accurate picture as to whether any parties are disproportionately disadvantaged by the change. We are also of the view that these results should be assessed against the principles of Article 13 of Regulation 715/2009/EC.

As an example, domestic customers are required to hold peak day capacity, and entry capacity is the product of a 2015 process, whereby capacity bookings were allocated against suppliers.

³ Table 7 of the Annex provides the tariffs for each of the locations (i.e. CWD) for 2019-20. In the same table, a forecast postalised tariff of £0.367690 per kWh/d, is included.

Therefore, where capacity recovers more revenue, the capacity tariff (annual) must increase relative to today, *ceteris paribus*.

We would have also expected a clear rationale and adequate justification for this specific proposed ratio, especially in light of the 90:10 ratio in ROI, where the intent of the reform undertaken in 2015, was to ensure that the impact on customers was minimised. We would also like to see a justification for why, what we consider is the sensible approach of aligning with the ROI ratio, was discounted as inappropriate.

Impact to entry-exit (revenue impacts)

In addition, the entry-exit split has an impact which has not been considered in depth and does not take account of the various products that are available at entry (short-term) vs. exit. Currently, this is a 50:50 split. As entry has more flexibility, UR may consider that it is equitable for the entry-exit split to be more weighted towards entry, given that flexibility is not given at the exit. Therefore, it may be a more equitable solution to increase this weighting towards entry, resulting in a higher reference price and reflecting the cost of flexibility afforded to market participants, at entry. Without considering this, the capacity-commodity split essentially hits certain customers, i.e. domestic bookings, that are tied to high capacity bookings at the exit, despite the fact there is no flexibility of exit products. To alleviate this, we would recommend that UR at least model and consider weighting the entry-exit split more favourably towards entry, to ameliorate a disadvantage that would be unequally borne by domestic customers, when coupled with the increase in capacity charges.

Table 1: suggested scenarios for impact assessment

Modelling and impact assessment	Approach	Customer profiles
Status quo	75:25 and 50:50 ⁴	Peaker plant
SSE Airtricity scenario (GB) 1	97:3 and 50:50 ⁵	Baseload
SSE Airtricity scenario (GB) 1	97:3 and 70:30	Baseload industrial
NI current proposal scenario	95:5 and 50:50 ⁶	Medium industrial
SSE Airtricity scenario (NI) 1	95:5 and 70:30 ⁷	Small business
SSE Airtricity scenario (ROI) 1	90:10 and 50:50	Domestic
SSE Airtricity scenario (ROI) 2	90:10 and 70:30 ⁸	

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 the quantity of gas flows.

There has been no construction of flow-based commodity charges. Essentially, the UR has not shared or indicated that a technical assessment of compression gas costs, which are the primary flow-based charge, has been completed and provided it in the consultation. Therefore, there is nothing against which to comment, under this question. We would welcome further data to allow us to develop an informed response.

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

⁴ Current ratios

⁵ 97:3 as per the GB approach and given the fact that their entry-exit split is currently being finalised

⁶ As per the UR proposal in this paper

⁷ As an example, this is the split used in ROI.

⁸ The full ROI based approach

Broadly speaking, the information published by the TSO outlines the inputs and outputs in sufficient detail. However, SSE Airtricity is of the view that whilst this process is satisfactory, it may be beneficial for additional rationale for changes in inputs e.g. forecast volumes, bookings or correction factors, to be included in more detail in the explanatory notes. At present the details included are high-level and would benefit from additional granularity.

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

The purpose of the TAR NC is to provide a recovery mechanism, primarily through capacity and commodity charges for the TSO revenues. As we understand it, this includes the cost associated with the transportation agreement between PTL and GNI (UK) which facilitates gas from Moffat via Twynholm to Northern Ireland. Clarity of how these costs are treated would be helpful.

In addition, we note that the TSO and UR should consider applying non-transmission services to any new "commercial" gas pipeline which a new entry point (if one were to materialise) may trigger. This approach would ensure that the RAB cost was minimised and would therefore ensure that those that using such a new entry point pay for such infrastructure.

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

We have no comments under this question. We note the intention to align with ROI in terms of the seasonal multiplier factors that will likely be set. The CRUs Network Tariff Liaison Group (NTLG) is considering the seasonal multipliers, with a focus on the Quarterly products which have not been assessed since their introduction in 2015. It would be useful for UR to consider the work ongoing in that forum.

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?

Alignment of factors with ROI

We assume by "factors", UR means seasonal multiplier factors. We have commented on this in response to question 7 above.

More broadly however, we consider that the intention towards alignment with ROI is limited given that the products available in both markets do not align. In particular, we note that the TAR NC intends to ensure that seasonal factors are facilitated in terms of economic and efficient utilisation of infrastructure.

For example, the CAM NC has aligned the availability of standardised products at IPs across all EU Member States. Efficient utilisation of the gas network, should consider whether with the adjustment of the capacity-commodity split, that a review of short term exit products should be reconsidered.

In ROI, shippers and generators can avail of short-term capacity at the exit, portfolio efficiencies and secondary trading. In addition, gas can be procured from domestic sources and NBP. On the other hand, although NI is served from SNIP and the SNP, the single source

of gas is NBP, as ROI flows cannot be facilitated physically at the Gormanston IP. In addition, NI does not have flexibility products at the exit that match those that must be available at the IP under CAM i.e. Monthly, Daily etc.

Provision of long-term investment signals

As part of the SEM Committee's recent publication on the BNE in the capacity market, the RAs have indicated that a gas fired CCGT located in Northern Ireland is the most efficient plant. The BNE model signals that such a plant is the reference plant to "beat" for any new entrant in the market. Different from previous years, the intention underpinning this choice of reference technology, is to send an investment signal for entry of this type of plant. This is against the backdrop of impending plant closure due to IED requirements across the island.

However, there are several regulatory levers that can be used that would make the investment case for a CCGT in Northern Ireland more realistic.

Firstly, for investment purposes, UR should not only consider alignment with the ROI regime, but also align with GB and ROI in relation to short term exit capacity products. Secondly, if UR are considering whether an investment environment is based on long term signals, then it should also acknowledge that CWD has the effect of providing locational signals to large gas users. Notwithstanding a change to CWD, a re-examination of exit products being introduced in NI, in light of the forthcoming I-SEM, BNE, plant closures and change to capacity-commodity split, may provide an equitable and equally attractive (though less systemic) shift, in favour of new entry.

Furthermore, given the proposed shift to a 95:5 and therefore a higher capacity charge, this moves more of the costs of the network, to capacity bookings. Notwithstanding that UR undertook a review of exit products in 2017, it would be prudent for UR to take the opportunity of the tariff review methodology as an opportunity to review how to best "future proof" gas demand at an aggregate level in Northern Ireland. We consider that exit products and its accompanying short-term flexibility would be more relevant in light of the proposed higher capacity charge. We would recommend that a re-examination of exit products, might be a reasonable consideration.

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.

There is no model available to review in order to see how the indicative tariff is constructed. Therefore, it is unclear what sort of comment we can make to the table referenced in this question. We would request to see the model constructed for the counterfactual and for the construction of this table of values, in order to make a considered response.

Annex 2

Outlined below are some further comments against Annex 2. Specifically, the following gaps have been identified:

1. No virtual reverse flow products have been included in the assessment or the consultation. Under the EU Third package, gas pipelines are required to have virtual reverse flow products. Therefore, this makes the assessment incomplete. We would welcome this being included/provided to market participants.

2. As mentioned above, the calculation of the RAB in Annex 2, starts at the IP of Moffat, rather than Twynholm. Whereas the map in Appendix 2 of the consultation, accurately details the IP being at Twynholm. The actual calculation of the RAB starts from Twynholm IP. Therefore, to assess the RAB from Moffat for the purposes of the counterfactual, is inaccurate.
3. As also mentioned above, there has been no simplified model provided on the counterfactual, as required under TAR NC. Annex 2 as the counterfactual assessment, provides high-level end values, but no model or methodology to assist market participants to flex the inputs, or for impacts to adequately quantified.
4. Finally, we note that Gormanston has been excluded from the assessment because of its zero value. We consider that makes the assessment incomplete. We discuss this below.

Gormanston

We note that Annex 2 has consciously discounted a tariff being generated for Gormanston, given that its flows are currently zero. Gormanston is an entry point, in the same way that Twynholm is an entry point. Under the CAM NC, there is a requirement for TSOs to provide standardised capacity products on PRISMA, at all IPs. Therefore, Gormanston should have a tariff constructed for it, and it should be included as part of the assessment and the counterfactual. We would welcome a revised assessment and counterfactual on this basis.

Furthermore, we acknowledge that the Gormanston IP is not expected to have any bookings associated with the point. Regardless of this, the CRU has developed a Gormanston Exit tariff for the IP. It would appear incomplete for no corresponding Entry tariff to be developed for its entry into Northern Ireland.