taking natural gas further

29 August 2018

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The Utility Regulator
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Belfast
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Dear Jillian,

Consultation on Harmonised Transmission Tariffs for Gas

Thank you for the opportunity to respond to the Utility Regulator's (UR) C*onsultation on Harmonised Transmission Tariffs for Gas*. Firmus energy welcomes this engagement with the UR, recognising the necessity for compliance with the European Union Regulations, specifically the IME3 Regulation EC 715/2009, and the Network Codes which have been/are being implemented as a consequence of that Regulation.

Whilst acknowledging the need for EU compliance, firmus energy also recognises that any change to the existing transmission tariff structure brings with it a number of challenges for gas suppliers in Northern Ireland (NI) and particularly for firmus energy Supply Ltd, as discussed below. Furthermore, any changes resultant from this consultation should be considered as part of an overall review of the current tariff arrangements in place to recover the necessary costs required to fund the Transmission System Operators' (TSO) operational activities.

Background and Initial Entitlement

In October 2015 a revised NI transmission tariff regime came into effect. This was borne out of an obligation to comply with EU Regulations, specifically EU 715/2009, which required (amongst other things) that charges for Entry and Exit Capacity should be levied separately, and also the CAM Regulation (EU 984/2013) which required that capacity at interconnection points should be sold via an auction process.

As part of this process the gas suppliers in Ten Towns and Greater Belfast were allocated an initial entitlement of entrance capacity from the GB transmission Network to the NI transmission network, "Entry Capacity". This capacity, which importantly is fixed for 5 years i.e. Oct 2015 - 2020, was based upon the competitive environment at that point in time and not necessarily with a view to how the natural gas networks would develop over the 5 year period.

It is this fixed initial entitlement of Entry Capacity from 2015 to 2020 which firmus energy believes to present a particular challenge and requires further consideration by the UR in terms of the proposed new tariff regime and the requirement for NI to fulfil its EU compliance obligations. Indeed, it is our opinion that the current GMO postalised transmission tariff regime does not reflect the true and current market conditions. In the absence of market reflective data (and therefore a tariff modelled with unknowns), the current arrangements fall short in the Reference Price Methodology's requirement for a tariff regime enabling network users to reproduce the calculation of reference prices and an ex-ante forecast for future years.

Entry Capacity Impact on Market

The decision to award a 5 year Entry Capacity initial entitlement in 2015 has now crystallised a number of market place nuances that continue to adversely impact the operation of the postalised tariff and indeed supply competition in NI.

To clarify further, we have set out a number of explanatory points:

1) Firmus energy's initial entitlement of Entry Capacity into the NI system outweighs firmus energy's (booked) Exit Capacity from the GB network. These two values should, theoretically, be equal.

2) Although the PRISMA platform is available for purchasing short term capacity products, market conditions are such that our ability to engage in "secondary trading" (particularly of unbundled capacity) is limited.

3) There are now 6 active suppliers in the Ten Towns market, compared to 2 suppliers in 2015. As customers switch between suppliers, the required Entry Capacity for those suppliers will change, however, firmus energy is unable to reduce its Entry Capacity booking.

This surplus Entry Capacity allocation has a number of adverse consequences. Consider the following:

1) Firmus energy has a surplus Entry Capacity resulting from the lost volume and capacity attributed to c.1,100 switched meterpoints since 2015.

2) The new gas suppliers, currently registered to these c.1,100 meterpoints, have all purchased their own (additional) Entry Capacity for their new customers.

3) As such, the Entry Capacity required is now double booked (paid for twice), by firmus energy (the original supplier) and, upon switching, the new supplier. This is not efficient, does not fit the postalised tariff model, and will notionally result in over-recoveries by the GMO.

4) Any Suppliers burdened with surplus Entry Capacity may be unable to effectively compete in the marketplace.

<u>Changing the Capacity to Commodity Ratio from 75:25 to 95:5</u>

As stated previously, we acknowledge the requirement for EU compliance, and the impending obligation for NI to adopt a 95:5 Capacity Commodity split. Nevertheless, as discussed in our response, we believe the current Entry Capacity issues need to be resolved before further upward pressure is placed on the capacity element of recovery. Indeed we would highlight the UR's **Question 1** in the consultation.

What are 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?

As outlined in this document, we do not believe the current postalised regime (in its present format) meets the aforementioned requirements. We therefore would request the UR either, revisits the obligation to book Entry Capacity, to the extent determined by the initial entitlement - until the end September 2020, or postpone the implementation of the 95:5 split until such time as the 5 year entitlement period concludes (i.e. 30 Sep 2020).

From October 2020, the initial entitlement period comes to an end and gas suppliers will then book their Entry Capacity as required. We believe there is now an opportunity to bring this date forward by one year to October 2019. We are unaware of any regulatory restrictions that could prevent this being realised and furthermore, suggest it could be aligned with the introduction of the 95%:5% capacity commodity split. By implementing this plan the UR would not only be harmonising the NI transmission tariff with the EU states, but also ensuring that the NI postalised regime meets the previously discussed requirements of a Reference Price Methodology.

We trust these points are helpful and look forward to the UR's review of these matters.

Kindest regards,

Stephen.

Stephen Miller
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firmus energy