

Jillian Ferris
Networks Compliance Branch
Utility Regulator
Queens House
14 Queens Street
Belfast
BT1 6ED
29th August 2018

Consultation on the Harmonised Transmission Tariffs for Gas

Dear Jillian,

Mutual Energy welcomes the opportunity to respond to this consultation on behalf of its three wholly owned subsidiaries Premier Transmission Limited (PTL), Belfast Gas Transmission Limited (BGTL) and West Transmission Limited (WTL), which hold licences to convey gas granted pursuant to the Gas (NI) Order 1996.

The mutualisation of the Scotland to Northern Ireland Pipeline, the Belfast Transmission Pipeline and the mutualised financing of West Transmission Limited deliver significant annual savings to Northern Irish consumers on the operation of our gas pipelines in Northern Ireland. These comprise both cost of capital savings and operational savings achieved under Mutual Energy's ownership. The capital savings have only been made possible by obtaining 100 per cent bond debt financing of PTL, BGT and WTL at very low costs of capital. This low cost of finance has been secured by having a stable regulatory environment, a key feature of which is the postalised tariff regime including an end of year reconciliation to ensure revenue recovery. Given the positive response of investors to postalisation via the mutual model (most recently in the early financing of 'Gas to the West'), a change away from this could risk future investments and the goodwill built up by successful operation of postalisation since 2004. We therefore remain strongly supportive of the NI postalised regime and welcome the Utility Regulator's view that this already largely complies with the requirements of the TAR NC.

We note that many of the required tariff changes have been implemented as part of the Network Code on Capacity Allocation Mechanisms updates prior to October 2015 so are not anticipating significant market change in advance of May 2019.

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 remains the most appropriate approach given the nature and size of the NI gas network. The simplicity of a postalised network also aids transparency and replication of tariffs for network users to enhance predictability and provide stability 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.

We note the indicative reference prices in Table 2 are in line with those published by GMO NI on 31st May 2018 and would encourage the Utility Regulator to include the entry points and exit points to which these prices apply in their publication of the tariffs.

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. Given the level of costs that are driven purely by volume it does not appear realistic to justify maintaining the current capacity commodity split. Based on the existence of volume driven costs, their level, and compliance requirements, the proposed 95:5 split seems appropriate.

We note the UR historic data analysis that finds, should the commodity element be reduced from 25% to 5%, then 3-5% of revenue collected from power stations would be collected from gas consumers as a result. While this is viewed as acceptable, this impact should be monitored and forward looking analysis undertaken as load factors obviously vary over time (e.g. in a lumpy manner due to plant retirements or gradually due to renewables penetration) and any transfer of cost could potentially be more marked.

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 and consider that the proposed split meets these criteria.

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

The simplified tariff model published by GMO NI alongside the tariffs in advance of each gas year should provide the listed information.

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?

Mutual Energy does not believe that any of its gas conveyance subsidiaries provide 'non-transmission services'. We support the view that all current services 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.

Mutual Energy supports the use of non-annual entry capacity seasonal multiplier factors. Our experience has been that these appear to encourage longer term capacity booking which should (always subject to accurate forecasts) reduce volatility in the annual reconciliation process to the benefit of all parties.

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?

We broadly agree with the proposal to maintain alignment with the seasonal multiplier factors offered in RoI due to the potential impact of divergence on the electricity market. We note the comment in 7.14 "*Whichever approach the CRU decide upon, we intend to maintain our policy of alignment*" – in the event that the CRU propose significant change we would expect that this should be on a coordinated basis with the Utility Regulator and TSOs to ensure that the changes are satisfactory for both jurisdictions.

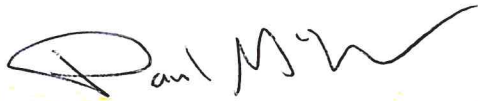
We agree that the factors do deliver a balance between facilitating short term trade and providing investment signals. As per our response to question 7, the factors are a tool that can improve/smooth the recovery of transmission services revenue in combination with accurate forecasting. We also believe that the seasonal multiplier factors contribute positively to the other relevant considerations listed in paragraph 7.15.

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.

As a TSO we may not be the target audience for this question but we expect that these publications should provide sufficient information to allow Network Users to better understand the transmission tariffs and costs underlying them and to reproduce their calculation.

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

Yours sincerely



Paul McGuckin
Head of Markets and Regulation