



RESPONSE TO CONSULTATION ON THE  
INTRODUCTION OF ENTRY CHARGES  
INTO THE NORTHERN IRELAND  
POSTALISED REGIME FOR GAS

27.11.2014

# **BGE (NI) tariff consultation response**

## **Introduction**

BGE (Northern Ireland), a division of BGE (UK) Ltd. which is a wholly owned subsidiary of Bord Gais Eireann (BGE), was set up to facilitate the expansion of the natural gas grid within Northern Ireland having been awarded a licence in February 2002.

BGE (NI) is pleased to have the opportunity to respond to this important consultation and we welcome the Utility Regulator's (UR) consultation document as a further helpful step in defining a transportation tariff regime for Northern Ireland that will address EU requirements on tariffing and ensure a fully-compliant solution is implemented.

## **Choice of a new regime**

We believe a key first principle is that of revenue recovery. It is important to stress at the outset that the derivation of allowed revenue is and should continue to be a separate process to that of determining a tariff structure. This is a key premise of the gas regulation.

The UR's consultation document clearly states that its proposals in the paper do not seek to cover each aspect of the ACER Framework Guidelines and/or the draft TAR Network Code. The latter is not yet in its final form and will not be fully implemented until 2017. It is at least conceptually possible that changes are made to the Network Code after a decision is taken on NI tariffs which mean that the tariffs might need further modification.

## **Response to Consultation Questions**

Q1: Views on requirements for the new entry tariff methodology

- A significant principle in the consultation paper is the requirement to retain as many features as possible of the current regime in NI. While this is a pragmatic approach, it may result in a sub-optimal implementation. Specifically, there appears to be a reluctance to move away from the principles of postalisation and the 'Common Tariff' because of the need to amend government policy and legislative change.
- It is a reasonable expectation that there could be an auction premium if the SNIP approaches congestion. In such a scenario, a different clearing price could arise at entry and this would not be consistent with 'Common Tariff'.

- Are short-term tariffs with different multipliers and seasonal factors also inconsistent with the principle of a 'Common Tariff'? If so, this further reinforces the need to amend policy and legislation.
- On this basis, we believe that UR should consider amending the required legislation before Oct'17.

Q2: Proposal to apply postage stamp cost allocation methodology

- BGE NI agrees with the proposal to apply the Postage stamp methodology: the NI gas market meets the methodology criteria and considering the size of the network, implementing any of the other methodologies available would be unnecessarily complex and would not be any more cost-reflective than the postage stamp.
- We also agree that the methodologies proposed in the ACER FG's and their design are unlikely to change significantly before the finalisation of a TAR code. Postage Stamp is the most appropriate methodology for NI.

Q3: Proposal to maintain the current 75:25 capacity: commodity split at Exit and Entry for 2015.

- BGE NI agrees that there is no requirement to change the current cap-com split from 75-25 until the start of gas year 17/18. However, we would encourage UR to consider transitioning the split towards 100:0 over the next 2 gas years to Oct'17. Otherwise, Shippers will be faced with a significant jump in the headline capacity tariffs which optically may cause concern and alarm.

Q4: Proposal that the entry-exit split should be an output from the reconciliation process

- BGE NI agrees that the entry-exit split does not have to be used as an input parameter of the postage stamp cost-allocation methodology and can be determined as set out by UR in table 2 of the consultation paper.
- The ACER FG's also require that all entry and exit points contribute to/ (share in) in any under/ (over) recovery through the reconciliation of a single regulatory account.
- However, UR are essentially proposing that a preliminary split will be determined at the start of the year and updated at the end of the year when the y/e bullet payment is being calculated. Waiting to determine the split until the end of year reconciliation calculation may not be entirely compliant or consistent with the cost allocation methodology set-out in the ACER FG's:

effectively there is a floating split which changes from year to year and even within a year.

- The application of this proposal with the current y/e bullet payment may not be entirely consistent with the FG's and we would suggest the UR seek clarification on this matter from ACER.

Q5: Proposal to make full use of the flexibility to set multipliers and seasonal factors

- Within ENTSOG and between ACER and ENTSOG there has been much debate and discussion on the level of multipliers and seasonal factors. BGE NI agrees that final outcome here is uncertain.
- We recognise that the setting of short-term prices can have a significant impact on the predictability of capacity bookings and the volatility in revenue recovery. The proposal to set short-term prices to incentivise counter-seasonal load is a sensible one.
- In deciding on the appropriate level of short-term prices for Oct'15, UR should implement a set of multipliers based on a clearly defined set of objectives which recognise that the system was built to meet peak conditions. Once there is clarity on the EU guidelines, then UR can consider a phased transition in achieving compliance for Oct'17.

Q6: Proposal to retain a single PoT for entry and exit revenues

- We agree with the proposal to retain the PoT as it is consistent with the concept of a single regulatory account in the ACER FG's.

Q7: Proposal to reconcile the entry and exit points together

- In our response to questions 1 and 4 we have noted our concern with the limitations of retaining certain features of the existing regime. These concerns are related to the mechanics of reconciling under/over recoveries of revenue.
- However, the single regulatory account concept in the ACER FG's foresees that 'all entry and exit points will contribute to the reconciliation and this, in general is consistent with the proposal in the consultation.

Q8: Discontinuing Daily Capacity at Exit

- We believe that daily capacity should continue to remain in place at exit as with the introduction of daily at entry, it is an essential product for Shippers to be

able to match entry and exit capacity products. The proposal to implement a charge for nominations in excess of booked capacity suggests that daily capacity at exit will exist by default.

- We do not support the continuation of this possibility for Shippers to nominate in excess of their booked capacity: Shippers should be required to book capacity before they nominate or else appropriate penalties should be applied
- We would suggest that UR consider leaving daily capacity at exit as it is likely to be a useful product for Shippers.

Q9: Suppliers nominating above the level of booked capacity

- We agree that the pricing of interruptible capacity needs to be reviewed and priced appropriately to the risk of interruption, such that where the risk is low the discount is low. If the product is effectively a firm one then the price should be set to equal the firm price. This further reinforces our view that appropriately priced ST products are required at both entry and exit points.

## Conclusion

BGE NI are broadly supportive of the proposals in the consultation paper and request that UR consider the suggestions we have made in our responses to the detailed questions. We are available to meet with UR to discuss the above at your convenience. In the meantime if you have any questions on the above please contact me at your convenience.

Yours sincerely,

A handwritten signature in blue ink that reads "Brendan O'Riordan".

Brendan O'Riordan,  
On Behalf of BGE NI  
Bord Gáis Networks

