



Energy for
generations

Generation & Wholesale Markets

ESB Generation & Wholesale Markets
27 Lower Fitzwilliam St
Dublin 2
Republic of Ireland

By email:

Richard Hume
Richard.hume@uregni.gov.uk

27 November 2014

Dear Richard,

Consultation on the introduction of entry charges into the Northern Ireland postalised regime for gas

Thank you for the opportunity to provide input to the Utility Regulator's programme to introduce entry tariffs in Northern Ireland. Our answers to the questions specified in the consultation document are provided below.

We would be happy to discuss any of these points with you in more detail.

Yours truly

Jag Basi
Manager, Strategy & Regulation

Karol O'Kane
Gas Regulation

Q1

We welcome views on the requirements for the new entry tariff methodology set out in section 4.

We agree with the requirements listed in Section 4: to implement European legislation by October 2015, and that to comply within that timescale it is necessary to meet the legislative requirement for a common tariff, as there is insufficient time to undergo the process required to change local legislation prior to the deadline.

However, underlying requirements of the European legislation listed in Section 3 should also be considered. Specifically these are: transparency, cost reflectivity, non-discrimination, facilitation of efficient gas trade and competition, avoidance of cross-subsidy between shippers and avoidance of cross-border trade distortion.

The NRA's duty of protection of consumer interest, as outlined in the introduction, is also a requirement.

Q2

We welcome views on our proposal to apply the postage stamp cost allocation methodology

We agree that the postalised system appears to be the most prudent approach to take for Northern Ireland, given the size and nature of the pipeline system, and is also in the interest of stability. We agree that it would be possible to develop other models, in particular the Virtual Point A or Matrix methodologies, and manipulate them to produce non-differentiated tariffs as required by Northern Irish legislation. However, this would be an unnecessary level of complexity, and secondary tariff adjustments would be likely to lead to a very similar result to the postalised tariff calculation.

It should be recognised that a postalised system may not intrinsically serve the goals of cost reflectivity, non-discrimination and avoidance of cross-subsidy between shippers.

Q3

We welcome views on our proposal to maintain the current 75:25 split at exit and at entry for 2015 but to revisit this again for 2017 once the EUNC on tariff is finalised

We assume that this question relates to the capacity-commodity split, as it follows this section in the consultation document (the question does not mention this).

We do not object to continuity of the current methodology on this point. We note that the Framework Guidelines and Network Code as it stands require the bulk of charges to be capacity based, with any commodity charges to be levied transparently on the basis of the cost of flowing gas (e.g. fuel gas). As the current charging methodology is weighted 75% to capacity, it goes some way to comply with the spirit of the EU documentation thus far.

In the interests of transparency, we would welcome an explanation of the current 75:25 split with any supporting information. It would also be useful to understand what the costs to flow gas are currently and, based on current allowed revenue, make an estimate of what the future commodity proportion might be in Northern Ireland should the proposed methodology in the Tariff Network Code come into force. We suggest this for two reasons: so that Industry can be prepared for likely change

and so that work is continued towards future compliance in good time. We note that the intention to move towards charging chiefly on a capacity basis has been long standing in the EU process.

Q4

We would welcome views on our proposal that the entry-exit split should be an output from the reconciliation process

At this point in time, it is acceptable that the entry-exit split can be an output of the reconciliation process. But we suggest that UR may need to revisit this point in the future and should be open to do so rather than close off this issue now.

As pointed out in the consultation document, there are uncertainties on future capacity booking behaviours due to CAM implementation, as well as other developments in the industry. As tariffs are based on forecasts, this could mean that the targets for revenue recovery are not hit, and also that the split of bookings could move away from being close to 50:50. The level of forecast inaccuracy and shift in booking proportions should be mitigated, initially at least, by the continuation of some enduring Firm Capacity bookings in the automatic entry capacity allocations to be conducted in line with CAM. As booking behaviour becomes clearer, this issue (and potentially multipliers and seasonal factors) may need to be revisited. We accept that this can add some complication to the reconciliation calculations, but these are not insurmountable; the simplest solution may not be the most adaptable nor suitable in the longer term.

Q5

We welcome views on our proposal to make full use of the flexibility to set multipliers and seasonal factors

We understand the use of seasonal factors and multipliers, and that their use in Northern Ireland at entry would bring it into line with other markets. However, we do not support the reasons provided by UR at 5.60 pertaining to promoting use of the network in summer and shifting demand away from winter peaks. The weather related nature of gas demand, which in NW Europe is led by cold and dull winters, plus the lack of connected gas storage in Northern Ireland, means that these grounds are not plausible. The majority of gas consumption in Northern Ireland is not able to move its demand away from winter peak. Power generators in particular have no alternative and should not be penalised artificially, which would result in the end user paying higher electricity prices.

We recognise these tools being used as described at 5.58 (in the quotation from the draft Network Code) to address the need to provide TSOs with stability of revenues via a mix of longer term (e.g. annual) bookings as well as short-term capacity bookings.

Multipliers and seasonal factors should be used in a transparent and prudent manner. We would welcome the opportunity for Industry to provide input on the level of multipliers and seasonal factors to be used.

Q6

We welcome views on the proposal to retain a single PoT for holding revenues from both entry and exit

We do not object to the use of a single PoT. We suggest that the efficiency and efficacy of such an approach is monitored and adapted as appropriate.

Q7

We welcome views on our proposal to reconcile the entry and exit points together

We accept the grounds for reconciliation of entry and exit points together, which would be in line with the intention to calculate the tariff based on revenue divided by the forecast capacity bookings at all entry and exit points together. Per our answer to Q4, we suggest that this may need to be revisited in future as booking behaviour develops.

On the issue of reconciliation, we would like to comment that this consultation and change of arrangements provides the opportunity to review the 'bullet payment' concept. We would prefer that any under or over recovery of revenues be addressed in the tariffs of the following year(s), and therefore spread and evened out over time. The annual bullet payment at end of period can cause problems with Shipper budgeting and cash flows. It also affects supplier pricing policies and can act as a barrier to entry for new entrants, particularly in relation to pricing to end-users. This is inconsistent with the aims of the Third Package. It is disappointing to see that this point is not part of the consultation and would welcome its inclusion.

Q8

We welcome views on discontinuing the daily capacity product at exit from 1 October 2015

The nature of the daily capacity product has meant that it could not be used practically as a short-term product as intended by the spirit of EU legislation (i.e. the period of advance notice is too long). We do not object to its removal.

Q9

We welcome views on our proposal that a supplier nominating above the level of booked capacity at an exit point will be charged at an appropriate rate for capacity in addition to the commodity charge

Following from our answer to Q8, we understand that, in practice, short-term capacity is accessed currently by using interruptible nominations and interruptible capacity. Under the Balancing Network Code implementation measures proposed by the TSOs in the draft Business Rules for Nominations, it is proposed that interruptible nominations/allocations at exit be removed and that the level of these charges be set by UR. We understand that under 6.8-6.13, the consultation document is referring to this same point, and is indicating that capacity that was previously interruptible is now considered firm, or at least has a probability of interruption of zero. It also states that the charge for this capacity usage in excess of booked capacity will be the 'reserve price for daily capacity', plus the commodity charge (as opposed to solely the commodity charge, which is currently the fee for interruptible nominations/allocations).

We would like to understand how exit capacity that was previously only interruptible can now all be deemed as effectively firm (6.13). The explanation at 6.9 does not appear to justify this. It is not clear what has changed and why Shippers should pay additional charges to those paid currently for this service.

We would also like to be made aware of any individual exit points where the risk of interruption is not as 'low' as others, and whether any alternative measures will be

required. If capacity is in fact not firm – even if the risk of interruption is ‘low’ – this should be reflected in the charge as stated and applied across all exit points.

At 6.9 it is implied that the introduction of short-term products at entry and expected changes in bookings is the reason to change the exit arrangements. As stated above, the automatic allocation of enduring entry capacity to match enduring exit capacity is likely to mitigate this, initially at least. Therefore, using the reasoning in 6.9, any change in exit arrangements should not be required until any change in entry booking behaviour can be observed.

In the absence of access to any short-term capacity product, deemed capacity (i.e. capacity provided according to nomination) is welcome. However, the proposed implementation of this is unclear and does not seem consistent with the Nominations and Allocations draft Business Rules: if interruptible nominations/capacity/allocations are being removed, what product is being accessed in its place (the consultation refers to it as interruptible and uses this concept to justify a proposed charge)?

The proposed charge is in itself unclear: the daily capacity product is intended for removal and so a tariff for this will no longer exist, yet at 6.13 the charge for daily firm capacity is put forward. The ‘reserve price for daily capacity’ will be the calculated charge for the CAM product at entry based on forecasts, and so its application to overbooking at exit is unclear; this price is put forward at 6.10.

In summary, we believe that insufficient information is provided in the consultation to allow us to comment fully on this proposal.