FLOGAS RESPONSE TO UTILITY REGULATOR CONSULTATION ENTITLED

'PRICE CONTROL FOR SSE AIRTRICITY GAS SUPPLY (NI) LTD AND FIRMUS ENERGY (SUPPLY) LTD'

DRAFT DETERMINATION 10 JUNE 2016

Response date: 9th August 2016

Flogas Natural gas is currently active in the Industrial and Commercial natural gas markets in both the Greater Belfast and Ten Towns distribution zones. Flogas is not active in the residential gas market. Our comments are therefore restricted to the Commercial Gas market.

<u>Price control Period change</u>
We note the change in the SSE price control is to be extended to 31st March 2017 and we agree that the cost allocations during this 3 month period are to be adequately apportioned as set out in this document.

<u>De-regulation EUC2 Greater Belfast</u>
As discussed within section 3 of this document the decision to withdraw the EUC2 category from the Price Control is welcomed by Flogas. As SSE now hold less than 50% of the market within the EUC2 category and the fact that there is 4 active suppliers in the market place we deem that it is now the right time to de-regulate this sector from 1st April 2017. WE suggest that the Utility Regulator reserve its position as regards re-introducing price deregulation in the event of the historic incumbent resuming a dominant position. We agree that given SSE hold over 70% of the EUC1 market that this is to remain within the price control for a further 3 years.

<u>De-regulation Ten Towns</u>
We agree with the proposal to keep the price control in place for the Ten Towns area at this time, as Firmus still hold the majority of the market.

<u>Tariff review</u>
We acknowledge that the K-factor is to be maintained at a minimum level and are happy that this should not have a major impact on the tariff reviews during the next price control period.

We agree with the trigger mechanism being set to 5%, we agree that should the wholesale prices increase by more than this that gas suppliers are not penalised.

Supply Operating Costs

We note that the Utility Regulator is proposing to allow a level of Manpower and Operating costs which is significantly below the level of actual costs being incurred by the two incumbent suppliers. In our experience commercial entities do not incur a higher level of cost than is required to operate their businesses. Hence we do believe that the Regulators draft determination in this area is soundly based. In the absence of any exceptional circumstances we believe that the regulated suppliers should be permitted to recover their actual costs.

The apportionment of IT Capex costs to the period expected to benefit from their use is a reasonable approach.

Gas to the West

We agree with aligning the scope of the West control with the Greater Belfast control seen as SSE has been chosen as the commissioning supplier for the West zone.
The start and duration of this price control from 1st April 2017 for 3 years so as to be in line with Greater Belfast is welcomed.
We agree with the treatment of Network Costs & Gas costs to be pass through so that the West zone is in line with Greater Belfast and Ten Towns.

Flogas would like to support the comment made in section 8.19 and agree that the meter reading responsibility should be transferred to the Network Operators. We are aware that this will be discussed further with regards to GD17.

Gas Costs

We agree that wholesale gas costs and related transportation costs should be pass through and agree with the 10% premium to be applied to the unbought gas.

Margin

The increase in the margin from 1.5% to 2% of turnover is welcomed by Flogas. We feel this more realistic when comparing to other benchmarks in the Energy industry within Northern Ireland.