PHOENIX
NATURAL GAS

Consultation on the Introduction of Entry Charges into the Northern Ireland Postalised Regime for Gas

Phoenix Natural gas Ltd. Response

27th November 2014

Phoenix Natural Gas Limited (PNGL) continues to be supportive of the Utility Regulator (UR) in its delivery of the Northern Ireland (NI) project for compliance with the Gas Regulation and the new EU Network Codes and in particular the requirement to amend the current NI regime from a point to point system to an entry exit regime as set out in this consultation paper. Detailed below are the specific comments PNG has on the Utility Regulator's consultation on the 'Introduction of Entry Charges into the Northern Ireland Postalised Regime'.

EU Tariff Network Code:

PNGL note that reference is made throughout the paper to the fact that the EU Network Code on Tariffing is not yet finalised and changes currently being made to the NI regime are being based in part on the draft proposals. The consultation paper does note that UR believes that certain areas of the tariff Code such as cost allocation methodologies are unlikely to change when it is finalised but PNGL would ask if UR has given consideration to the areas of the draft Code that may change and their potential future impact on the new NI regime which would only be in place for a short time before further amendments would be required. PNGL appreciate that the aim for UR in this instance is to deliver an entry exit regime for NI and to deliver compliance with the new EU CAM Code by October 2015 but development of methodologies which could quickly become redundant should be avoided.

Cost Allocation Methodology:

PNGL note that the proposed cost allocations methodologies allow for a Postage stamp approach to be considered which is in line with many of the current principles of the current Postalised transmission regime in NI. We therefore believe that UR's decision to apply the Postage stamp cost methodology appears to be appropriate for ensuring EU compliance as well as continuing to support current NI legislation for the requirement of common tariffs.

Capacity Commodity Split:

UR proposes to leave the current capacity commodity split of 75:25 unchanged for the purpose of introducing entry charges into the NI transmission regime but we further note that this will be subject to further consultation when the tariff Code is complete. PNGL welcome the decision to leave the current split unchanged and would encourage UR to aim to maintain this level going forward, assuming the final published tariff Code permits. The NI gas market is still being developed with the majority of forecast growth coming from the domestic sector. The current PNGL customer base has a low load factor (c.36.5%) with the majority of consumers using gas for heating purposes. Any move to a regime with a higher capacity element in the capacity commodity split will impact on consumers within the PNGL Licence area and in particular the domestic sector and could curtail any future potential growth.

Changes to charging regime at exit:
With regards the proposal that the charging regime at exit changing to ensure that a gas supplier nominating above the level of capacity booked at an exit point will be charged an appropriate rate for capacity in addition to the commodity charge, PNGL would ask how this can be delivered at the distribution network interface where the Distribution Network Operator (DNO) books and holds the capacity at aggregated level for all shippers on its network. We note that UR wish to have further discussions with the TSOs on this proposal but PNGL feel it is important to make clear that any solution proposed cannot place any further requirements on DNOs to undertake additional processes associated with this capacity booking obligation.

Shipper Information:
Section 7 of the Consultation paper includes the statement 'Under current arrangements the GDNs currently book annual exit capacity on the basis of forecasts supplied by gas suppliers'. PNGL would point out that this statement is incorrect. Although PNGL consult with gas suppliers on its forecast of network capacity requirements the gas suppliers do not provide any information with regards the inputs into this analysis. PNGL undertake this analysis using its own aggregated network information and we do not see how any gas supplier could provide the necessary inputs in the future to allow the DNOs to calculate the 1 in 20 capacity forecasts.

The potential impact of the proposed methodology in terms of the year end reconciliation process will be driven by the quality of the forecast information provided by shippers, therefore, with regards the requirements for annual forecast information to be provided by the individual shipper, we would encourage UR and the TSOs when requesting this information from shippers that clear guidance and parameters are set for shippers transporting gas to distribution networks; recent years has seen shippers over estimating volumes at distribution offtakes which has resulted in tariffs being set too low and large bullet payments having to be made by gas suppliers to PNGL at year end for the Postalised Capacity charge, which is published and paid for by gas suppliers as a commoditised charge. With the new requirements for entry capacity forecast information to be provided for the individual capacity products, poor forecast information in this area could potentially result in further large reconciliation amounts introducing further uncertainty for shippers.

Multipliers and Seasonal Factors:
Although PNGL has no specific comments to make on the use of multipliers and seasonal factors we do note that in several instances in the paper the comment is made with regards their use to incentivise use of the network in summer. PNGL are unsure of the relevancy in the context of the existing NI market which has no storage facilities available and in particular given that the primary use of gas within distribution areas is for heating purposes.

Timings for the Publication of Tariffs:
With regards the timings for publication of tariffs which are proposed to be in line with the current arrangements, PNGL would point out that the credit support arrangements which gas suppliers have in place to support their Distribution Network Code activities, which includes Postalised capacity credit requirements, will need reviewed with the move to entry exit. As the initial tariffs will not be published until August 2015 this would leave insufficient time for PNGL to undertake the necessary review and for gas suppliers to arrange any amendment required to their chosen credit support method such as Letter of Credit arranged with banks or parent company guarantees. We also assume that the same timing issue will apply at Transmission level as TSOs will also need to undertake a review of credit support. We would therefore ask that UR gives consideration to an early publication of the initial 2015 tariff to allow this process to be undertaken in a timely manner.

Illustrative gas transmission tariff model:
Whilst the illustrative model provided proved useful for aiding the understanding of the proposed methodologies, the worked examples were based on a single large non-power shipper and two power stations which could be considered much less complex than a DNO shipper with an extensive and continually changing end user portfolio; it is this type of Shipper that will potentially introduce much of the uncertainty for the reconciliation process and it therefore would have been useful to see this modelled. It is would also have been useful if the model had demonstrated the use of the Monthly and Daily products.

In relation to the capacity reserve prices, below is an extract from the 'CALC|ShipInv' worksheet which displays the determined capacity prices. Without understanding the way in which the capacity is allocated and invoiced, the charges displayed below look as if the short term products are less expensive than the annual and quarterly products. PNGL feel that it would be beneficial if the charges could be displayed on a uniform basis for ease of comparison, for example, working all the charges up into an annual charge.

Heading	Item	Unit	*Comments*	2013/14	Oct-13
Calculation of capacity and commodity costs by product by shipper by month					
	1. ENTRY CAPACITY - MOFFAT				
	1a. Moffat forecast rounded entry capacity prices				
	Annual	*£/peak day kWh*			0.22229
	Quarterly	*£/peak day kWh*			0.06163
	Monthly	*£/peak day kWh*			0.02265
	Daily	*£/peak day kWh*			0.00079
	Within day	*£/peak day kWh*			0.00085
	Interruptible	*£/peak day kWh*			0.00067

Also, whilst the 'Illustration of UR entry tariff process…' document provides a worked example of a quarterly invoice, PNGL feel that a fuller explanation regarding the methodology applied to allocate the capacity booked for monthly invoicing purposes would be beneficial. Capacity is booked per day and for those not currently involved in the Postalised capacity invoicing it might not be a natural assumption that the annual booking of daily capacity would be divided by 12 and invoiced on this basis.

PNGL understand that the model provided was simply for illustration purposes and may not be fully complete however we thought it would be useful to highlight some omissions and errors identified during our review:

- Input / UR worksheet – rows 52 to 56 are hidden and contain 'Seasonal Factors' but it is not clear what these relate to.

- Input / UR worksheet – rows 73 to 78 contain 'Entry and exit volume variation factors' however there is no description in Table 1 of the 'Guide to illustrative gas transmission tariff model' to explain how this information would be used.

- Input / Vols worksheet - cells AA33 to AL190 contain the monthly capacity allocation for each product. The monthly capacity allocation is set up to divide the annual booking by twelve for some but not all of the Shippers and the quarterly capacity allocation is only set up to divide the quarterly booking by three for Shipper 1 and 2; we assume the same capacity allocation methodology would apply to all Shippers and the formulas populated accordingly.

- Input / Vols worksheet – in cells I9 to T12 there are errors in the formulas; many of the cells are referencing the annual forecast figure for the wrong shipper.

- Calc / Cap worksheet – the headings in rows 233 to 292 and 341 to 379 are not accurate as the figures are not rounded, as suggested by the heading.

- 'Illustration of UR entry tariff process… ' document - Table 6 provides an Illustrative shipper invoice, however, the Exit commodity charge for October, November and December shows the monthly volumes multiplied by 0.0003535. PNGL believe this should be 0.00070674.

NI Compliance project workplan:
PNGL had previously requested that UR confirm that DNOs would not be required to participate in the new capacity booking processes at entry and we welcome the confirmation received as part of this consultation paper. We had however also asked that UR consider the overall impact that this NI compliance project will have on DNO operations, address the exclusion of the DNO's role in its workplan and consider how any costs incurred by the DNOs in assisting in the project delivery will be dealt with. PNGL has of yet received no response from UR on the issues raised and we would welcome a response to our request for engagement as soon as possible.

Potential classification of Twynholm as an Interconnection Point:
Although not specifically referenced as part of this consultation paper, the UR workshop to support this consultation process had advised industry of the ongoing discussions with the CER on the potential classification of Twynholm offtake as an Interconnection Point (IP). It was evident from the briefing provided that UR believed that the only proper solution was for Moffat to be declared the appropriate IP and it was on this basis that the NI EU compliance project and in particular the proposed structure for introduction of entry charges was being developed . PNGL would certainly support the UR position but we would have considerable concerns that any future decision to classify Twynholm as an IP would have major implications for the NI regime, adding significant complexity, potentially damage the further development of supply competition and most certainly increase costs to the NI consumer as NI shippers would need to become a party to the BGE transportation codes.

As discussions on this issue progress, it is essential that the NI gas market is kept fully informed of future discussions and it would be helpful if UR could provide industry with more details on the consequences of the reclassification of Twynholm as an IP.