

**Power NI Energy Limited
Power Procurement Business (PPB)**

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

Response by Power NI Energy (PPB)

27 November 2014.



Introduction

Power NI Energy – Power Procurement Business (PPB) welcomes the opportunity to comment on the consultation on the introduction of entry charges into the Northern Ireland postalised regime for gas.

PPB is concerned that the focus is too concentrated on simple compliance with the CAM code and is not considering the wider opportunities to develop the gas arrangements to align with and accommodate the wider energy policy objectives, for example in relation to renewable energy targets. Such policies are resulting in ever increasing penetration of wind capacity and the associated need for flexible services to support both the unpredictability of wind and also to support the secure operation of the electricity system with greater volumes of wind. However, this energy policy cannot be delivered without increased flexibility in both the electricity and gas arrangements as the two are inextricably linked. The proposals to only provide annual products at exit points creates a barrier to such flexibility and we comment on this in more detail later in this response.

It is also a fact that the gas capacity for use by electricity generators is not as firm as capacity used to serve other gas customers and yet this is not recognised. Most gas fired generating units must be capable of operating on an alternative fuel and hence effectively only receive and require interruptible gas capacity. There are requirements for non-discrimination yet there appears to be inherent discrimination in the requirement to pay a common charge for a service that is not actually common.

It is also unclear why there are no plans to provide explicit interruptible products which are a requirement under Art 21 of the CAM.

Responses to the specific questions raised

Q1: We welcome views on the requirements for the new entry tariff methodology set out in section 4.

We note the need to implement entry tariffs by Oct 2015 although we do not accept that this should be the only driver of change and where there are changes that would improve the general efficiency and operation of the market then there should be no reason not to consider those at the same time.

Q2: We welcome views on our proposal to apply the postage stamp cost allocation methodology

It seems clear that the requirement for common tariffs effectively rules out all the options other than the postage stamp methodology, notwithstanding this may not provide the most cost reflective tariffs for the transportation of gas. It cannot be the case that the "size and nature of the high pressure network" overcomes the fundamental fact that distance will have a bearing of cost allocation. Common tariffs therefore mean the only option is the postage stamp cost allocation regardless of the inefficiency this imposes.

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 agree that retention of the current capacity/commodity split is appropriate pending further analysis on the actual variable costs associated with gas flows.

Q4: We would welcome views on our proposal that the entry-exit split should be an output from the reconciliation process.

PPB does not see the need for end of year bullet payments as this creates a mismatch for users who cannot similarly adjust their charges to their customers. In relation to power station demand, the gas will have been consumed throughout the previous 12 months and those variable cost elements are required, by licence obligations, to be included as part of commercial offers into the Single Electricity Market. There is no scope to retrospectively go back to change such bids just because a bullet reconciliation exists under the gas charging arrangements. Similarly building in a premium to cover for such risk of reconciliation could result in distorting the electricity markets and lead to market inefficiencies and higher costs for consumers. A much simpler approach would be for any outturn differences to be carried into the following year's tariffs as an adjustment that would provide "firm" charges for gas users.

PPB also disagrees with the proposal to only offer annual exit products and believes there should be a similar range of capacity products offered at both entry and exit, since it is otherwise discriminatory as the shippers with multiple exit points will see greater benefit by being able to access portfolio benefits

while shippers supplying single exit points will not be able to access such benefits. As the consultation paper notes, volatility is essentially a forecasting issue and there is no reason to use the risk of uncertainty over potential capacity bookings at entry and exit to justify not offering the full range of exit products at this time. The paper comments that exit point products will be reviewed at a later date but also highlights that the provision of such products could create volatility. We are concerned that this indicates that the design of the market and the delivery of the flexible products that users require is being stifled because of some perception of additional volatility and forecasting difficulty.

It is difficult to comment on whether the proposed approach of treating the entry/exit split as an output is a more appropriate approach when the alternative is not set out. The footnote to paragraph 5.29 notes that the split could take account of various cost drivers such as distance, technical capacity, etc. but provides no analysis as to the split such an analysis would produce. The lack of any information on such an alternative makes it difficult to provide any objective comment on what is most appropriate for the market.

Q5: We welcome views on our proposal to make full use of the flexibility to set multipliers and seasonal factors.

PPB notes the comments in relation to seasonal factors although, given the statement that there is unlikely to be a shortage of capacity, it is not clear why a seasonal factor is required or why an incentive is needed to manage demand away from the peak day. This would be more relevant if there were congestion but that is not anticipated to be an issue in the near future.

The proposals are also contradictory in that on the one hand they are seeking to provide long term incentives such that suppliers use the network more in the summer, shift demand away from the winter peak and ensure that tariffs reflect the costs of providing capacity to meet peak demand (from paragraph 5.60), yet the proposals also discount the benefits of interruptible products which provide the same tools to enable the utilisation of capacity to be maximised. It is wholly contradictory to propose multipliers and seasonal factors to provide "signals" but to then ignore the same benefits that would accrue from interruptible capacity.

Q6: We welcome views on the proposal to retain a single PoT for holding revenues from both entry and exit.

PPB sees no reason for any change to the existing regime and that all tariff revenues are paid to the PoT and reallocated as per the current arrangements.

Q7: *We welcome views on our proposal to reconcile the entry and exit points together.*

As we note earlier in our response to question 4, PPB believes bullet year end reconciliations should stop as it creates charges or rebates that most users cannot pass on to their ultimate customers. This leads to wider inefficiencies in the electricity market and may also distort prices in the retail gas markets. It would be much simpler if any shortfall or surplus was treated as an input into the derivation of the tariffs for the following year. This would not change any commitment to pay but would only affect the timing of cashflows.

Q8: *We welcome views on discontinuing the daily capacity product at exit from 1 October 2015*

As we noted earlier in our response to question 4, PPB believes the same variety of products should be offered at exit points as is offered at entry points. As also noted earlier, this discriminates against shippers supplying single exit points.

A further concern is that the absence of exit point products perpetuates a mismatch for Northern Ireland generators relative to their wholesale market competitors in RoI who are able to access short term exit products. This difference distorts the functioning of the electricity market and risks creating inefficient scheduling of electricity generation in market which is contradictory to the intent of the EU target Model which is seeking to maximise the efficient scheduling of generating units throughout the EU.

We do not believe that it is too difficult to create the same suite of products for exit as are being created for entry products for implementation from October 2015 and believe this must be addressed now rather than consideration being deferred to 2016.

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.*

Firstly, the provision of short term exit products would provide tools to enable gas users to mitigate most of the risk of exceeding their exit point capacity booking.

It is also worth noting that most of the consents for the commissioning of gas fired generating units require that they are capable of operating on an alternative fuel. Hence these exit points are mostly "interruptible" and therefore there should be flexibility in relation to the exit capacity requirement. In addition, there should be "interruptible" products made available to reflect the overall strategic energy policies adopted, as well as the actual operational obligations set out in the Network Codes that treat power station sites as less firm than

customers in the downstream market. This difference should be reflected in the tariffs for such differentiated capacity.

Finally, where a user does exceed the final exit capacity held then we agree that overrun charges should apply but these should not be penal but should reflect the cost to the system of such activity. Such events are likely to occur and may become a more frequent feature of energy markets as the markets change to accommodate the increasing penetration of wind generation that has more unpredictable output but which is being supported by government policy. However, users should not be penalised unduly as they try to provide the flexible generation support that is needed to manage the volatility of wind output and the development of products and charges in the gas arrangements should be consistent with the wider energy policy.