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Gas Branch
Utility Regulator
Queens House
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27th November 2014

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

Dear Richard,

Thank you for giving us the opportunity to respond to NIAUR's consultation on introducing entry charges in Northern Ireland. SSE provides gas to over 120,000 customers in Northern Ireland, trading as SSE Airtricity. Our principles for the Northern Ireland European Development (NIED) project are:

- Simplicity (Minor changes for shippers and suppliers, rather than major overhauls)
- Efficiency (Expensive solutions do not make sense on a small network)

At a high level, we agree with the approach taken by NIAUR in taking account of the methodologies in the draft network code on Harmonised Transmission Tariff Structures for Gas¹, and we agree that the common tariff requirement in legislation imposes restrictions on the selection of a tariff methodology.

Our brief consultation response provides comment on some of the questions posed within the consultation paper.

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

The requirements set out by the Utility Regulator are straightforward, although we would note that implementation by October 2015 makes consistency with the common tariff requirement redundant – it would be impossible to change legislation over the period remaining.

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

¹ The TAR Network Code

With the common tariff requirement in place, and an ex-post reconciliation process required in order to make the CWDA, VPBA or Matrix approaches deliver equal tariffs, the postage stamp methodology is sensible.

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[s] is finalised

If an option to delay reassessment of the current capacity-commodity split is available to NIAUR, it should be taken, given the scale of work required in the rest of the NIED project.

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

Making the entry-exit split an output from the reconciliation process will blunt forecasting incentives for shippers. However, given the postage stamp approach applied and mutualised nature of the PTL and BGTL assets, an output approach may be more appropriate.

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

While the paper provides reasons for applying seasonal factors, it does not explicitly state NIAUR's approach to, or justification for setting different product multipliers outside of seasonal factors, outside of:

"[T]he risk is that low multipliers combined with under forecasting of capacity bookings by suppliers will result in an under recovery of allowed revenues. While the system of reconciliation payments means that the TSOs should be revenue-neutral overall, this would impact on TSO cash flows. For suppliers, the risk is that large bullet payments may result, affecting market participants' cashflows."

This should be weighed against the increasing demand for flexibility from transmission customers (particularly power generators). The decision paper should be more explicit on multipliers across different products using the existing draft TAR network code and the justification for its approach.

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

There does not appear to be any issue with using a single account for entry and exit revenues.



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

Reconciliation of entry and exit appears to be compliant with the draft TAR Network Code.

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

The existing daily capacity product at exit is effectively unusable, so discontinuation from 1st October 2015 should have very limited impact. However, there is a clear and increasing requirement for flexible products from particular market segments. This should be fully recognised and considered by both TSOs and RAs in their respective Code Modifications and consultations.

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

An incentive to accurately book exit capacity at a point should exist. Charging a transmission commodity charge only does not reflect the probability of interruption, and actually creates an arbitrage opportunity for some suppliers (excluding suppliers who have capacity booked on their behalf by a GDN).