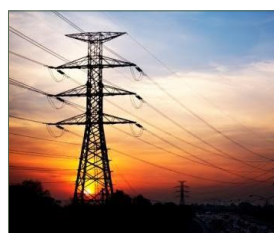


Summary of Responses on Harmonised Transmission Tariffs for Gas

11 October 2018



About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs; Electricity; Gas; Retail and Social; and Water. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

Our Mission

Value and sustainability in energy and water.

Our Vision

We will make a difference for consumers by listening, innovating and leading.

Our Values

Be a best practice regulator: transparent, consistent, proportional, accountable, and targeted.

Be a united team.

Be collaborative and co-operative.

Be professional.

Listen and explain.

Make a difference

Act with integrity.

Abstract

This paper summarises the responses received to our consultation which proposed changes to the NI gas transmission charging regime. These changes are required to implement an EU Regulation on establishing a network code on harmonised transmission tariffs for gas, by 31 May 2019.

Audience

This document is likely to be of interest to regulated companies in the energy industry, government and other statutory bodies and consumer groups with an interest in the energy industry.

Consumer Impact

This is summary of responses and does not include a decision, therefore there is no consumer impact.

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1. Purpose of this Paper

- 1.1. In June 2018, the Utility Regulator published a consultation to meet the requirements of EU Regulation 2017/460, the Network Code on Harmonised Transmission Tariff Structures for Gas (“TAR NC”). The TAR NC was published on 17 March 2017 with the objectives of contributing to market integration, enhancing security of supply and promoting interconnection between gas networks.
- 1.2. The consultation paper set out our proposals to achieve compliance with the TAR NC, by 31st May 2019.
- 1.3. We are required under Article 26(3) of TAR NC to publish the responses received. This paper summarises those responses. We will follow up with a decision document and proposed licence modifications in due course.

2. Background

- 2.1. The TAR NC requirements which were consulted on were:
 - Use of a consistent and transparent Reference Price Methodology which ensures cost-reflectivity and predictability for network users
 - Defining of transmission and non-transmission services
 - Rules about recovery of transmission services revenue
 - The calculation of reserve prices for standard capacity products
 - Review of multiplier and seasonal factors
 - Increased transparency of transmission tariff structures through increased requirements for publishing information.

- 2.2. In the consultation document, we stated that is our view that the NI postalised tariff regime already largely complies with the requirements of the TAR NC.
- 2.3. In addition to some minor adjustments and increased transparency arrangements, we stated that we consider we will need to change the capacity commodity split which determines the allocation of the required transmission revenue in the postalised tariff regime. This is because the TAR NC permits commodity charges by exception only.
- 2.4. We proposed to amend the capacity commodity split for recovery of transmission services revenue, from 75:25 to 95:5. This would require modifications to the transmission licences.
- 2.5. In accordance with Articles 26 and 28 of the TAR NC, we published a consultation paper on 21 June 2018. This consultation closed on 30 August and generated eight responses from interested parties.
- 2.6. Article 26(3) requires that we publish the consultation responses received and their summary. This will be followed by publication by the Agency for the Cooperation of Energy Regulators (ACER) of the conclusion of its analysis (Article 27(2)) on whether our consultation paper met the requirements of Article 26. Article 27(4) requires that we publish our motivated decision on the items in Article 26(1) within five months of the end of the consultation.
- 2.7. This paper provides a summary of the responses received.

3. Summary of Responses

3.1. Responses were received from the following parties:

- ESB Generation and Trading (ESB GT);
- firmus energy Ltd (firmus);
- Gas Market Operator for NI (GMO NI)
- Gas Networks Ireland (UK) Ltd (GNI(UK)) – included within the GMO response
- Mutual Energy Ltd (MEL)
- Phoenix Natural Gas Ltd (Phoenix)
- Power NI Energy Ltd Power Procurement Business (PPB)
- SSE Airtricity (SSE);

3.2. In our consultation we noted that we would publish all consultation responses unless respondents requested otherwise. As no respondent asked us not to publish their response, we have [published](#) all the responses received on our web-site.

Question 1: We are interested in respondents' views on whether the postalised regime meets the requirements of a Reference Price Methodology, as outlined in paragraph 4.5 [of the Consultation Document]. Specifically, do respondents consider that the postalised regime enables network users to reproduce the calculation of reference prices and a forecast for future years?

3.3. Most respondents indicated that they considered the postalised regime met the requirements.

3.4. Some respondents did not agree. firmus says that:

“We believe the current Entry Capacity issues need to be resolved before

further upward pressure is placed on the capacity element of recovery.” Further: “We do not believe the current postalised regime (in its present format) meets the aforementioned requirements”. They request that: “the UR either, revisits the obligation to book Entry Capacity, to the extent determined by the initial entitlement – until the end of September 2020, or postpone the implementation of the 95:5 split until such time as the five year entitlement period concludes (i.e. 30 Sep 2020)”.

- 3.5. MEL, GNI (UK) and the GMO NI support the maintenance of the Reference Price Methodology to comply with the TAR NC. The GMO NI and MEL stated: “We strongly support the view that the postage stamp cost allocation methodology is the most suitable method given the nature and size of the NI gas network. The straightforward nature of a postalised network also aids replication of tariffs for network users to enhance predictability year on year” ... “Any movement away from postalisation would be a lengthy and costly process, requiring a change in government policy and legislation along with significant changes to the network codes and transmission licences”.
- 3.6. MEL comments that postalisation has been successfully operating since 2004 and it facilitated 100% bond debt financing, and that: “this low cost of finance has been secured by having a stable regulatory environment, a key feature of which is the postalised tariff regime”.
- 3.7. MEL also states: “Given the positive response of investors to postalisation via the mutual model (most recently in the early financing of “Gas to the West”, a change away from this could risk future investments and the goodwill built up by successful operation of postalisation since 2004.”
- 3.8. While Phoenix is supportive of the continuation of the postalisation regime, they state that: “the TAR NC requirement of ensuring non-discrimination and limiting cross-

subsidy across transmission network users must apply to all elements of the NI transmission tariff regime”...”Amendments to capacity commodity split should not be considered in isolation of all other regime components.”

3.9. SSE considers that insufficient analysis was provided in the consultation document to allow a stakeholders’ review. SSE states specifically:

“it isn’t possible to establish whether the proposed tariff methodology is equitable in terms of network cost recovery across different types of users.”

3.10. ESB GT: “agrees that the postalised regime meets the TAR NC requirements” and welcomes the transparency and accessibility of the spreadsheet model and documentation. However, they make the point that varying methodologies and level of charges between regions: “could incentivise Shippers to flow gas to one destination market over another” and seek further information on why we propose to align on seasonal multiplier factors with RoI but not on capacity commodity split.

3.11. PPB states that they have previously expressed concerns with postalisation as “consumers who only use a subset of the gas transmission system [are] being charged for the full transmission system”. Further, they consider that means it does not: “satisfy the requirement of ‘Ensuring non-discrimination and preventing undue cross-subsidy””

3.12. PPB also states that the variation in tariff between the forecast for the 2018/19 Gas Year which was included in the 2017/18 tariff publication and the published 2018/19 tariff highlights “that forecasting for future years is very difficult given the evident volatility”.

Question 2: We are interested the views of respondents about the indicative reference prices provided in Table 2 [of the Consultation Document].

3.13. The GMO NI, GNI (UK) and MEL agreed that the indicative reference prices

matched those published by the GMO NI on 31 May 2018. They state that they intend to note the entry and exit points to which these prices apply in their publication and encourage us to do the same.

- 3.14. SSE states that “there has been no methodology, assumptions or inputs provided” and that a model which could flex key inputs “would assist stakeholders in reaching more informed conclusions”.
- 3.15. PPB state that “the tariff in NI is simply presented as the new tariff without consultation”.
- 3.16. ESB GT also mentions the variation in tariff between 2017/18 and 2018/19. They observe that an increasing tariff would be exacerbated by a change in capacity commodity split, for low load factor customers. They further observe that there are a number of factors interacting to cause the recent increase in annual tariff and the varying amount of the year end reconciliation, which may make “domestic fuel switching less attractive, and the investment in network extension less viable”.

Question 3: We welcome views on our proposal to change the capacity commodity split to 95:5. Are there any other factors regarding this change that we should consider?

- 3.17. This question generated the greatest amount of interest.
- 3.18. firmus energy acknowledges the requirement for the capacity proportion to increase considerably, however, as outlined in response to Question 1, states that: “we believe the current Entry Capacity issues need to be resolved before further upward pressure is placed on the capacity element of recovery”.
- 3.19. GMO NI and GNI (UK) agree that it would be difficult to justify maintaining the the current capacity commodity split, however they state that the impact of changing the capacity commodity split on NI network users: ”should be

carefully considered by UR”.

- 3.20. They also say that: “this transfer of costs can fluctuate depending on the load factor of a particular user in any year”.
- 3.21. MEL says that: “based on the existence of volume drive costs, their level, and compliance requirements, the proposed 95:5 split seems appropriate.” MEL also states that the impact of this change should be monitored over time as load factors vary and any transfer of cost could potentially be more marked.
- 3.22. PPB states that the consultation should have included an analysis of historic variable costs. It also states: “it would also have been useful to understand the volatility of these variable costs as a result of, for example, commodity price variations.”
- 3.23. Phoenix considers that there are a number of reasons why the proposed change would not support the regime principles:
- They consider that: “cost reflectivity cannot be allowed to take precedent over provision of a regime which encourages and supports the development of a growing natural gas industry in NI.” Therefore, this proposal to further increase the capacity element: “is not considered helpful”.
 - The UR estimate of transfer of costs between gas end users and power stations is based on forecasts and hence have the potential to be exceeded with; “the potential to impact growth especially at a time when Distribution System Operators (DSOs) are investing in network extensions and entering new towns which have no previous gas usage experience.”
 - As the gas distribution companies book exit capacity on behalf of their shippers, they must provide credit support to GMO NI to meet Network Code requirements. The higher capacity charges arising from the amended capacity commodity split means that: “the Required Level of Credit Support will exceed the Maximum Allowed Unsecured Credit”, entailing additional

costs for Phoenix. Phoenix notes that this could be mitigated through review of the Maximum Allowed Unsecured Credit but that they understand GMO NI considers the current levels to be appropriate.

- The distribution operators charge capacity charges on a commodity basis. Phoenix considers that this does not facilitate adequate cost recovery for customer with high capacity booking and low volumes and Phoenix: “would welcome more detailed dialogue before any decision taken with regards this consultation.”

3.24. SSE accepts that UR does not have much discretion regarding the capacity commodity split, but says they would have expected an impact assessment including analysis of scenarios to provide the rationale for choosing 95:5.

3.25. SSE goes on to ask for justification why we did not propose to align the capacity commodity split with RoI.

3.26. SSE also proposes that we consider changing the entry exit split away from 50:50, with a bias towards entry, on the basis that supplier have more flexibility at entry: “to ameliorate a disadvantage that would be unequally borne by domestic customers, when coupled with the increase in capacity charges.”

3.27. ESB GT considers that there are several factors concerned with the introduction of the Integrated Single Electricity Market (ISEM) that should be considered regarding the proposed capacity commodity split:

- While ESB GT agrees that small end-user gas demand is weather driven and therefore has relatively high capacity bookings, they point out that some power generators already do not run at baseload, but rather operate to cover peaks in electricity demand. Changes in how electricity is generated and used mean that the predictability of power plant operations will reduce. ESB GT states that the UR analysis is: “too simplistic and short term in its outlook”.

- They consider that the proportionate increase in capacity costs: “could be managed more efficiently at Exit through short-term and seasonal products”
- With regard to ISEM, ESB GT say that: “an increase in capacity costs could cause a change in the position of plant within the CRM auction ranking”. Further, they make the point that plant are bidding into auctions one and four years ahead of delivery, so “changes to gas capacity costs must be transparent and made in a timely manner”.
- ESB GT also say that it was: “not made clear why alignment is justifiable for multipliers but not the capacity commodity split.”

Question 4: We are interested in respondents’ views on whether the proposed commodity charge meets the requirements outlined in paragraph 6.2 [of the Consultation Document], specifically, that the charge would be set to recover the costs mainly driven by the quantity of gas flows.

- 3.28. Phoenix states that it would be useful to understand the costs associated with gas throughput in RoI which has determined their higher commodity element.
- 3.29. PPB refers to their previous comments regarding the lack of analysis on historic costs and detailed forecasts provided for commodity costs.
- 3.30. ESB GT sought information about why the figure of 5% was chosen, and specifically why not 10%, as is used in RoI. They do, however, agree that: “rounding to a stable percentage has the benefits of being understood and stable, even if the revenue figure it is calculated with is not.”
- 3.31. SSE states UR has: “not shared or indicated that a technical assessment of compression gas costs, which are the primary flow-based charge, has been completed”
- 3.32. Although the GMO NI supports a reduction in the commodity element, it states that the TSOs may be in a better position to comment on appropriateness of the 5% commodity level.

Question 5: Do respondents consider that the information published alongside the postalised tariff provides the information listed in paragraph 6.1 [of the Consultation Document]?

3.33. PPB would welcome additional detail on the assumptions around quantities of Short Term products.

3.34. GMO NI and the TSOs acknowledge that the publication of the simplified tariff model alongside the tariffs should provide the information required by TAR NC.

3.35. SSE broadly agrees but notes that: “the details are high-level and would benefit from additional granularity.”

Question 6: We welcome respondents’ views on whether the services provided by TSOs do include an element of non-transmission services, or should the services continue to be solely classified as transmission services?

3.36. GMO NI, GNI (UK), MEL, ESB GT and PPB agrees with classifying all services as transmission services.

3.37. SSE seeks clarity on how the costs of the Transportation Agreement between PTL and GNI (UK) at the entry to the SNIP are treated. It further recommends that any new commercial gas pipeline with a new entry point should be deemed to receive non-transmission services: “to ensure that those using such a new entry point pay for such infrastructure.”

Question 7: We are interested in respondents' experience of the seasonal multiplier factors for non-annual entry capacity in the last two Gas Years.

Question 8: We welcome views on the aspects listed in paragraph 7.15 [of the Consultation Document], particularly with regard to the balance between facilitating short-term gas trade and providing long term signals for efficient investment in the transmission system. Specifically, do respondents agree with our proposal to maintain alignment with the factors offered in RoI?

- 3.38. All of those who responded to questions 7 and 8 were supportive of the continued use of seasonal multiplier factors and of continued alignment with the Republic of Ireland.
- 3.39. MEL states that non-annual entry capacity products: “appear to encourage longer term capacity booking which should (always subject to accurate forecasts) reduce volatility in the annual reconciliation process to the benefit of all parties.” MEL says they would anticipate that any proposal to make significant change should be on a coordinated basis.
- 3.40. PPB agrees that NI should align the seasonal multiplier factors with those in RoI but considers that NI: “should have influence over the derivation of the factors such that they are reflective of circumstances in both jurisdictions.” Further, it notes the: “derivation of the factors must not merely be an arbitrary process but must be based on a set of justifiable principles.”
- 3.41. ESB GT states that: “the availability of within year products at Entry...has been useful to Shippers”.
- 3.42. ESB GT welcomes the proposal to continue alignment of the seasonal multiplier factors with RoI, specifically: “misalignment of multipliers could result in impacts on cross-border flows, in the sense of diversion to an alternative market rather than transit.”
- 3.43. With regard to investment, ESB GT states that: “the needs of the largest user

group needs to be given significant attention...Without this group, the cost recovery burden from any additional investment would increase significantly for small gas users and be a barrier to fuel switching”

- 3.44. Both ESB GT and SSE ask that non-annual capacity products are offered at exit as well as entry.
- 3.45. SSE says: “if UR are considering whether an investment environment is based on long term signals, then it should also acknowledge that CWD [capacity weighted distance cost allocation methodology] has the effect of providing locational signals to large gas users.”
- 3.46. SSE also states that: “it would be prudent for the UR to take the opportunity of the tariff review methodology as an opportunity to review how best to “future proof” gas demand at an aggregate level in Northern Ireland”

Question 9: We would ask the respondents to share their view as to whether the transmission charges publications outlined in Table 6 [of the Consultation Document] are sufficient to allow Network Users to better understand the transmission tariffs and the costs underlying them, as well as to estimate their potential evolution beyond the current tariff period.

- 3.47. PPB and MEL agreed that the publications are sufficient. ESB GT notes that GMO NI and UR are responsible for different publications and say that it would be useful to have: “a single route of access to all the data and a clear timetable for publication.”
- 3.48. SSE says: “There is no model available to review in order to see how the indicative tariff is constructed.” They request further information in order to: “in order to make a considered response.”
- 3.49. PPB also state that: “The one issue that has caused difficulty is the volatility of tariffs”, which, “makes it difficult for users to budget gas transportation costs

to a reasonable level of accuracy.”

- 3.50. GMO NI notes that the publications should provide transparency and are willing to consider publishing further information if it would improve transparency further.

Further Comments

- 3.51. ESB GT states that: “cross border aspects of TAR should not always be dismissed as irrelevant in the Northern Irish context.”
- 3.52. ESB GT also states that, although we propose not to change the bullet payment method of reconciliation, that the possibility of a flow based revenue recovery charge: “may have been relevant for explicit review...especially in the context of a change in the capacity commodity split.”
- 3.53. Phoenix notes the requirements regarding potential discounts to capacity products and points out that: “the current regime has not been developed to support this type of initiative.”
- 3.54. Phoenix asks why, with the UK’s upcoming departure from the EU, why the UR considers the NI gas industry needs to comply with this Regulation.
- 3.55. SSE consider that there are: “specific gaps in UR’s assessment” of the CWD counterfactual and there: “is no detailed impact assessment...of the impacts against different customer groups”.