27th November 2014

Richard Hume
Utility Regulator
14 Queen Street
Belfast
BT1 6ER

Dear Richard,

Thank you for the opportunity to respond to the Utility Regulator's (UR) Consultation on the introduction of entry charges into the Northern Ireland (NI) postalised regime for gas.

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

firmus energy recognises the need for compliance with Article 13 of regulation (EC) 715/2009 and for the cost allocation methodology to be considered in conjunction with the "draft" tariff network code. Furthermore, we support the UR in its objective of minimising the risk of divergence between the final determined network code and the new tariff regime design.

firmus energy agrees that the successful implementation of a new tariff regime by the October 2015 deadline is most easily accomplished by building on the current postalised arrangements and structure in NI.

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

firmus energy agrees that the postage stamp methodology is the most suitable cost allocation technique for the Northern Ireland Gas Network and the only method that is consistent with the common tariff requirement.

In addition, the postage stamp methodology is better than the 'Virtual', 'Matrix' and 'Capacity Weighted' options by virtue of its simplicity, implementation costs and relevance to geographical network size. Furthermore, we believe that the absence of cross-border flows, as well as the complexity of the other options, further supports the decision to use this methodology.

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.

Due to the tariff code still being under development and not being implemented until 2017, we support the proposal that the capacity commodity split should be maintained at 75:25 for the time being. The ratio of the Capacity Commodity split can be explored further when the European Union Network Code (EUNC) on tariffs has been agreed.

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

Given the uncertainty surrounding this new tariff regime, and the inexperience of suppliers using the new short term products, we agree that there is likely to be volatility in entry point revenues. We foresee an improvement in terms of Entry forecasts over time, but agree that, as an initial proposal, an entry-exit split should be an output from the reconciliation process to ensure all gas users share any risk arising from forecast and actual volumes.

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

firmus energy understands the importance of facilitating and incentivising short and long term products and implementing an effective revenue recovery mechanism for Transmission System Operators. We agree that this can be controlled theoretically by applying seasonal factors and multipliers to the reserve tariff price.

Due to the uncertainty and inevitable problems arising from implementing a new and complex tariff regime, we believe that this area should be carefully monitored in terms of the possible effects of seasonal factors and product multipliers.

As there is no historical or empirical evidence in this area for NI, we have little knowledge of whether the seasonal factors and multipliers will be economically elastic or inelastic at any given rate in the Northern Ireland market. For this reason we suggest any factors are based on comparative markets and industry research, and are monitored closely to ensure they influence the objectives that they are expected to control.

firmus energy believes that, as a result of market uncertainty, issues remain in terms of the buying and selling of short and long term products. We are hopeful that these will be addressed at the PRISMA Workshop and we look forward to the outcome of those discussions.

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

We agree that the proposal to retain a single PoT for holding revenues, for both entry and exit, is the most practical solution. This arrangement has work satisfactorily up to now (at exit) and is well understood by market participants.

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

Given the uncertainty surrounding the new tariff regime coming into effect it seems pragmatic that the entry-exit revenues should be reconciled together.

We agree that the reasons affecting the decision to move away from an ex-ante split of revenues between entry and exit, also apply to the reconciliation process. firmus energy also supports the UR's proposal that all suppliers should share the risk given the propensity that there may be inaccurate forecasting in the early stages of this new tariff regime.

Finally, we agree that the argument for combined reconciliation is further strengthened by the framework guidelines on tariffs stating that under-recoveries cannot be targeted at one or a few entry/exit points.

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

firmus energy recognises that with the full introduction of entry capacity into the NI codes, a daily capacity product at exit is no longer required to meet European Union (EU) obligations. Nevertheless, we would question whether this is reason enough to remove the daily product and ask what arrangements, if any, are in place to replace the benefits of having a short term product at exit?

The UR proposes that the Transmission System Operators (TSO) should consult on removing this product in conjunction with their forthcoming Code modification on entry capacity products. We are happy that any issues with the removal of daily capacity at exit will be explored in greater detail through this mechanism.

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.

firmus energy accepts the need for an appropriate charge to be levied on shippers who nominate above the firm capacity booked at exit point. However, if exit capacity is booked by the Gas Distribution Network Operators, the question arises as to how to allocate that cost between suppliers on the network, given that the excess capacity may not be attributed easily to specific suppliers on the network.

Supply margin impact

firmus energy notes the increased complexity in charging and reconciliation that will result from these changes. Our offer to customers has been based on charging Transmission costs to customers in a transparent manner, clearly setting out the charges included in tariffs discussed with UR or charged individually to large customers. The potential volatility in the charges increases the risk that the charges we make to customers will not match those we incur. firmus energy will discuss this issue further in future supply price controls.

If you require any further clarification on the responses provided, please do not hesitate to contact me.

Yours sincerely,
Stephen.

Stephen Miller

firmus Energy Regulatory Analyst