Response to Utility Regulator Consultation

‘Introduction of entry charges into Northern Ireland postalised regime for gas’

on behalf of

AES Ballylumford Power Ltd and AES Kilroot Power Ltd

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Queries to

Commercial Department
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1.0 Introduction
As a major stakeholder within the Northern Ireland gas market, AES Ballylumford Limited and AES Kilroot Power Limited (collectively “AES”) welcome the opportunity to respond to the Utility Regulator (UR) consultation paper ‘Introduction of entry charges into Northern Ireland postalised regime for gas’ (the Paper).

2.0 General Comments
AES accepts that the EU Network code on CAM only mandates flexible capacity products (e.g. quarterly, monthly, daily and in-day options) being made available at the IP (entry into the NI system). However, AES is disappointed that the UR has opted not to implement the same flexible capacity products at NI entry and exit at this time. We note that the UR has stated their intent to review the provision of flexible capacity products at exit in 2016, but this is not a firm commitment to introduce such products and is caveated by prevailing workload. With no firm time line commitment, AES is concerned it may take several years for such products to be made available, if at all. As was the case when day-ahead capacity at exit was first introduced, unfortunately it appears that we are yet again in a situation of only doing what is required to meet the EU requirements rather than developing genuinely useful products for the local gas industry. This lack of short term flexible exit products severely restricts the options available to shippers to procure gas capacity in an efficient and cost effective manner. For gas fired power generators in particular, there is an ever increasing requirement to provide flexibility to balance an increasing level of volatility due to increased penetration of renewable generation. Also gas fired generation is the preferred option to provide cost effective short term cover for generation outages (or lack of generation from renewable sources such as wind). With gas fired electricity generation in NI accounting for circa 2/3 of the annual gas demand, clearly the flexibility of the gas system should align closely with the requirement of the electricity system. The lack of short term flexible gas capacity products clearly means load-following and intermittent generators will have to procure capacity which will largely be unused and which adds significant cost.

It is the strong opinion of AES that the lack of exit flexible capacity products significantly dilutes the usefulness of having such products at entry and we believe this is not in keeping with the intent of the CAM.

3.0 Response to specific question posed by the UR in the Paper

3.1 Views on the requirements for the new entry tariff methodology set out in section 4.

AES agrees that the implementation of an entry capacity and associated flexible products is mandated by the CAM code and methods for implementing proposed by the UR in the Paper are in line with these requirements. We also agree it is a sensible to take account of the requirements as currently stated in the draft tariff code.

However, AES would again highlight our concerns, aired in section 2 above, as regards flexible capacity products not being offered at NI exit.
3.2 Views on proposal to apply the postage stamp cost allocation methodology

AES is not convinced that the use of a postage stamp cost allocation methodology meets the criteria set in the draft tariff code, particularly in relation to avoiding cross-subsidies. Whilst we understand the social benefits of a common transmission price for all that postalisation brings and that NI is a relatively small system, clearly a shipper that makes use of a small part of the transmission system but pays the same charges as a shipper who makes much more extensive use of the system is providing a form of cross-subsidy.

Of the other cost allocations methodologies presented, AES believes that the Capacity Weighted Distance Approach is the best fit option for a small system and in terms of compliance with the stated parameters of: -

- Transparency
- Reflective of the actual costs incurred
- Applied in a non-discriminatory manner
- Facilitate efficient gas trade and competition
- Avoid cross subsidies between shippers
- Avoid distorting trade across borders

3.3 Views on 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.

AES agrees that this should be maintained at least until the European network code and the associated rules are finalised at which point a review and consultation should be conducted.

3.4 Views on proposal that the entry-exit split should be an output from the reconciliation process.

AES understands the concern that the availability of additional capacity entry products could produce significant issues in predicting tariffs and the potential for significant annual reconciliation adjustments. Therefore AES does not disagree with the proposed methodology of an ex post entry exit split (i.e. as an output from the reconciliation process as opposed to an input). However, when a range of flexible capacity products at exit are developed, this methodology should be reviewed.

As there is clearly greater risk that the magnitude of reconciliation will increase, AES would urge consideration being given to other options. For example, reconciliation payments being made biannually or quarterly or at the very least providing shippers with quarterly or biannual updates on the likely magnitude of bullet payments.

It is also the case that many suppliers cannot adjust their tariffs to account for retrospective bullet payments. They are therefore in a position of estimating the likely level of annual adjustment and building this into their tariffs. This is clearly inefficient and an added risk cost that end customers will ultimately bear. Indeed, for smaller suppliers, the level of bullet payments could prove to be a serious financial issue in terms of cashflow. There is therefore good reason to reassess if bullet payments offer the best solution. An alternative would be to roll any surplus or deficit forward into the following year so eliminating the risk of significant bullet payments in return for what is likely to be a marginal increase in volatility of year or year tariffs.
3.5 Views on proposal to make full use of the flexibility to set multipliers and seasonal factors.

AES broadly supports the principle of applying Multipliers and Seasonal Factors. However, we believe the intent to use such factors to shift demand away from peak periods is unlikely to achieve this aim until gas storage products are available in NI. Seasonal variability in gas demand is almost entirely driven by end customer heating requirements (and electrical energy produced by gas fired generators for lighting and heating). Indeed, AES would like to see the further study as to the benefits the application of such factors would bring without the availability of storage products. Apart from ensuring short term capacity is potentially more expensive than annual capacity (which is clearly sensible) AES is not convinced that the introduction of Multipliers and Seasonal Factors will lead to more efficient use of the gas transmission system.

Therefore, whilst AES supports the principle of applying Multipliers and Seasonal Factors, we would not support their introduction without further consultation on the methodology of determining the magnitude of the factors together with sound modelling data evidencing their use would lead to the desired outcome of influencing demand patterns.

3.6 Views on the proposal to retain a single PoT for holding revenues from both entry and exit.

AES does not see the need to change if this arrangement is still feasible with the introduction of additional capacity products over varying time scales.

3.7 Views on our proposal to reconcile the entry and exit points together.

The Paper proposes two options for the reconciliation of entry and exit points: i.e. separately or together. AES accepts that the network code does not provide much clarity on this aspect but that the framework guideline mentions that under recovery cannot be targeted at a few entry or exit points and, as there is effectively only one entry point used in the NI system, this would tend to favour the approach of reconciling the entry and exit revenues together.

AES therefore supports the proposal, but this methodology should be reviewed once flexible exit products are offered.

3.8 Views on discontinuing the daily capacity product at exit from 1 October 2015.

To our knowledge, the day-ahead capacity product at exit has never been used. This is not because shippers do not desire such a product, but because of the requirement to book the day-ahead product several days in advance. As we have stated above, this is a prime example of a product being introduced to ensure EU regulation compliance rather than being introduced as a useful tool for the gas industry. Therefore whilst AES would support the removal of the current day-ahead capacity product at exit, this is only because the product with its current booking restrictions is of no practical use. AES would again reiterate the need to introduce a range of exit products designed to meet the needs of shippers as well as ensuring EU regulation compliance.
3.9 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.

AES would strongly disagree with any proposal that a supplier be charged a premium for nominating above the level of booked capacity at an exit point unless short term capacity products are available to enable the supplier to manage their position on a daily basis. Although not currently the case, if there were issues of congestion, then appropriately priced interruptible products should also be available.