Consultation on Short Term Exit Capacity for Gas Transmission in Northern Ireland
Phoenix Energy Response
9th June 2023

Introduction and General Assessment

Phoenix Energy (**Phoenix**) welcomes the opportunity to respond to the Utility Regulator's (**UR**) consultation on "*Short Term Exit Capacity for Gas Transmission in Northern Ireland*".

This consultation comes at a time when the energy sector in Northern Ireland (**NI**) is experiencing significant changes with UR's consultation recognising the following in relation to the power sector:

- a new Open Cycle Gas Turbine (**OCGT**) power station at Kilroot is expected to commission in and start generating during Gas Year 23/24. Due to this power station being expected to operate as a peaking plant, it may have a more variable need for capacity than conventional power stations[1]. Furthermore, the owners of this new power station have indicated that they plan to convert the gas-fired OCGT units to a Combined Cycle Gas Turbine (**CCGT**) unit from GY26/27[2].
- the ship-or-pay agreement at Coolkeeragh power station is coming to an end in 2024 which may afford Coolkeeragh more flexibility to optimise its gas capacity bookings between annual capacity and non-annual capacity[3].
- the long-term contract between Ballylumford and Power NI's Power Procurement Business ends in 2024. This may alter Ballylumford capacity forecasts from 24/25 onwards compared to historical figures[4].
- a second North South Interconnector is planned to become operational by 2026 which should allow the all-island network to operate more efficiently, and it is anticipated that this will entail in a reduction in NI power sector demand due to the potential for newer, more efficient power generation plant, including in the Republic of Ireland[5].
- the Climate Change Act (Northern Ireland) 2022 sets out a target of at least 80% of electricity consumed to come from renewable sources by 2030 meaning that the System Operator for NI (**SONI**) sees a greater requirement for power stations to operate as peaking plants to both support renewable generation while still being able to meet peak demand periods which will be changing due to the uptake of electric vehicles and domestic heat pumps[6].

[1] As per paragraph 3.2 (f) of UR's consultation
[2] As per paragraph 3.33 (b) of UR's consultation
[3] As per paragraph 3.3 (a) of UR's consultation
[4] As per paragraph 3.3 (b) of UR's consultation
[5] As per paragraph 3.33 (a) of UR's consultation
[6] As per paragraphs 2.19 to 2.21, and 3.33 (c) of UR's consultation

UR also rightly recognise the difficulties presented by how the future power generation developments, may impact the forecasting and uptake of short term exit capacity products, the accuracy of the setting of the exit capacity tariff, and the volatility of the end of year reconciliation which is felt across all shippers. Phoenix notes that due to these difficulties, UR has only modelled for scenarios based on a single gas year and not for any subsequent years. Phoenix has provided comment on this in response to question 8.6 below and queried whether using the gas year 22/23 is a suitable base year to use.

In addition to the power sector's challenges noted by UR, Phoenix believes it is important to recognise the significant changes envisaged for the gas distribution sector in NI needed to support the Department for the Economy's Energy Strategy (The Path to Net Zero Energy) for NI. The gas distribution sector continues to develop their plans to transition away from the distribution of natural gas to indigenous renewable gases, such as biomethane, to support NI's ambition to be Net-Zero by 2050. A critical part of the transition strategy is the need for increasing energy efficiency which could ultimately see volumes transported through NI's gas networks, and in particular the Postalised transmission network, decrease as a result. It is worth noting that the gas distribution sector has been experiencing a reduction in consumption, caused by the milder winters that have been experienced in more recent years as well as the significantly high wholesale gas prices compared to historic prices encouraging consumers to reduce their energy needs. In its GD23 Final Determination for gas Distribution Network Operators (**DNOs**), UR recognised these volume challenges now and into the future with volume efficiencies applied from 2023 onwards. Downward pressure on volumes will result in reduced capacity requirements and the potential for less dependency on the Postalised transmission network making the need for proper capacity booking and the fairness in the allocation of costs between the power and distribution sectors more important.

Phoenix agrees with UR's assessment that it is difficult to model scenarios for the future given the impact of the many developments in the gas and electricity sectors in NI. Therefore, Phoenix questions whether this is a suitable time for such a significant change to be made to the NI Postalised regime given the scale of these uncertainties. Since UR's '*Exit Capacity Review for Northern Ireland Gas Transmission – Call for Evidence*' in April 2016, the case for reform being promoted by the power sector remains unchanged and therefore Phoenix sees no new evidence to support why this reform should be considered appropriate at this time. UR's previous call for evidence had anticipated that the implementation of the Integrated Single Electricity Market (**ISEM**) in 2018 could move to address this power sector's concern but this consultation does not provide any detail on why the issue was not addressed as envisaged.

With the uncertainty that these proposals could bring to the NI Postalised regime, there is a potential for additional financial strain, in already difficult economic times, to be placed on gas suppliers and ultimately gas consumers, especially domestic consumers. Phoenix notes that UR's consultation sets out in detail their Statutory Duties with respect to gas and electricity and that due to the inter-dependencies between the gas and electricity sectors, UR considers that the interests of both gas and electricity consumers are relevant when considering the potential changes to the gas exit regime. It is unclear to Phoenix which Statutory Duties will take precedence and how a detailed assessment can be made when the scenario being analysed only explores gas year 22/23, which is unlikely to be reflective of subsequent gas years (as discussed further in Phoenix's response to question 8.6). Further the consultation does not contain any details of:

- the financial impact of the change on a gas consumer's bill; and
- any potential financial benefit to an electricity consumer.

Phoenix understands that the power sector in NI argues that the availability of short term exit capacity products will assist them in lowering their costs and help them to be more competitive in the ISEM market, but it is unclear from the consultation as to how these savings are passed on to electricity consumers. In addition, the NI power sector argues that the unavailability of short term exit capacity products place NI power stations at a competitive disadvantage with power stations in the Republic of Ireland (**ROI**). Yet no evidence has been provided regarding the magnitude of this competitive disadvantage. Phoenix would welcome more detail on the analysis undertaken that demonstrates this commercial disadvantage and would ask if the current ROI model is considered a reasonable assumption for future power generation in the region?

UR's consultation highlights that UR has a duty under the Energy Order to "ensure a high level of protection of the interests of consumers of gas" and to have regard to the interests of gas consumers, especially vulnerable consumers. It is difficult to conclude how this can be properly assessed unless a cost benefit analysis is undertaken to assess whether introducing short term exit capacity products in NI will be of benefit to both electricity and gas consumers. It is also worth highlighting that the implementation of short term exit capacity products in NI will likely incur additional costs for the Gas Market Operator for Northern Ireland (**GMO NI**) to facilitate the new arrangements including costs for system upgrades and potentially additional resources to support. At a time when gas consumers have been experiencing a period of significantly high bills, due to the volatility of the wholesale gas market, with volatility forecast to continue for several more years, any further increase to gas bills is unwelcome unless the change can be properly justified.

For the remainder of this response, Phoenix has provided responses to the 'Consultation Questions', as detailed in chapter 8 of UR's consultation, which are relevant to Phoenix.

Responses to UR's Consultation Questions

Merits of introducing short term exit capacity products.

8.1 Do Respondents consider that short term exit capacity products should be introduced? Please explain the reasons for your view and provide supporting evidence.

Phoenix is not supportive of the introduction of short term exit capacity products in NI due to the significant developments occurring in both the gas and electricity sectors in NI, as detailed in the 'Introduction and General Assessment' section of this response. Phoenix believes that these developments make it complicated at this time to assess the true impact that the introduction of short term exit capacity products will have on the NI Postalised regime and therefore it is difficult to ascertain how their introduction will benefit gas consumers. Furthermore, we do not believe that the consultation provides clear evidence of the benefits of undertaking such reform with no detail on consumer impact.

8.4 Are there any further risks or consequences that may arise as a result of introducing short term exit capacity products that we should consider? Please identify whether these consequences impact the gas or electricity market/consumers and provide supporting evidence.

One further risk that has not been considered in UR's consultation paper is the impact of introducing short term products to the recovery mechanism used by Phoenix to recover costs

associated with their exit capacity booking from gas suppliers. Phoenix publishes a Postalised exit capacity charge which is applied to the commodity throughput allocated to gas suppliers on a monthly basis[7].

After each gas year, Phoenix reconciles the monies paid to GMO NI for their exit capacity booking held compared to the monies received from gas suppliers, which results in either monies being returned to or recovered from gas suppliers. For clarity, this reconciliation is in addition to the end of year reconciliation referenced in UR's consultation that is undertaken by GMO NI.

Any introduction of short term exit capacity products, and a movement away from the sole use of the annual exit capacity product, will result in an increase of volatility for the DNO reconciliation that is undertaken. Phoenix has provided further comment on the risk of volatility in the reconciliation payment in response to question 8.16.

8.5 Are there any further mitigations which could be considered, including any that respondents may suggest from experience in GB and RoI? Please outline how these might be implemented.

As stated previously, Phoenix is not supportive of the introduction of short term exit capacity products in NI but has provided some thoughts on the entry:exit split in response to question 8.25 which could be considered even if short term exit capacity products were not introduced.

Gas Scenario analysis

8.6 We would welcome views on the assumptions underpinning the scenario analysis set out in chapter 3.

Phoenix has reviewed the scenario analysis contained in chapter 3 of UR's consultation paper, as well as the accompanying scenario model. In response to some of the specific scenarios explored by UR, Phoenix offers the following comments:

Scenario Number	UR's Consultation Description	Phoenix Comment
Base Case	Current tariff	Phoenix understands that UR's analysis is based on gas year 22/23, although UR's consultation paper is confusing as it indicates that the scenario analysis was only based on gas year 24/25 as shown in the 22/23 Postalised tariff publication[8]. Phoenix believes that looking at gas year 24/25 would be seem the most logical considering that if short term exit capacity products were to be introduced, this would

[7] Please see Phoenix's 'Postalised Exit Capacity Charge Statement' for more details (https://phoenixenergyni.com/assets/general/PNGL-Transmission-Exit-Capacity-Charge-Statement-Oct-22-to-Sep-23-Web.pdf).

[8] As per as per paragraph 3.2 of UR's consultation

Scenario Number	UR's Consultation Description	Phoenix Comment
		take effect at the earliest from gas year 24/25.
Base Case Enhanced	Current tariff with additional capacity for GY 24/25	As referenced earlier, the DNOs in NI have recently been experiencing energy efficiencies due to the unprecedented wholesale gas prices. The figures in this scenario are for gas year 22/23 and therefore the DNO figures for estimated volume throughput and exit capacity bookings would need to be revisited.
Scenario 1	Introducing short term exit products plus the additional capacity forecast in the NI Gas Capacity Statement (NIGCS) GY 24/25. Actual is equal to forecast.	Phoenix observes that in recent gas years the forecast and actual weighted entry capacity has been closely aligned, but Phoenix does observe that over the same gas years the variance between forecast and actual for some short term entry capacity products can vary significantly over some months. This is a concern given the different seasonal factors that currently apply throughout the gas year.
Scenario 2	Introducing short term exit products plus the additional capacity as forecast in NIGCS GY 24/25. Actual is lower than forecast at exit for daily products only, assuming only a proportion of the daily capacity forecast is actually booked.	This scenario seems most applicable in the context of the consultation considerations. Phoenix understands that the uptake of short term exit capacity products will be unpredictable due to their need being driven by supplementing deficits in renewable electricity generation, therefore it is useful to assess the impact to the exit capacity tariff if the uptake of actual short term exit capacity products was less than forecast.

Scenario Number	UR's Consultation Description	Phoenix Comment
Scenario 3	Introducing short term exit products plus the additional capacity as forecast in NIGCS GY 24/25. Actual is zero at exit for all daily capacity	Phoenix believes that this scenario is unlikely, but it is useful for assessing the worst-case scenario and its potential impact to the exit capacity tariff and the year-end reconciliation.
Scenarios 1b to 3b	Same as Scenarios 1 to 3 but with smoothed Seasonal Multipliers at both entry and exit.	Phoenix believes that it is useful to explore the smoothing of the seasonal multipliers and has provided additional comment on this in response to question 8.18.

Phoenix would summarise that while UR's modelling is technically robust, the estimates used for this modelling are uncertain due to the many future developments, as listed previously in this response, and variances between estimates and actuals can have significant implications for all shippers. Therefore, Phoenix again questions whether this is a suitable time for such a significant change to be made to the NI Postalised regime given the uncertainties that may result.

8.7 Do respondents consider there are other scenarios which should usefully be modelled at this time?

Phoenix believes the scenarios modelled by UR to be reasonable and fit for purpose and have been helpful in allowing parties to analyse their own scenarios. Given that the proposed changes, if introduced, would take effect at the earliest from gas year 24/25, Phoenix has focused on this gas year and used the latest forecasts that were provided by GMO NI in June 2023 as part of the 23/24 Postalised tariff publication. Phoenix observes that the trends for this gas year follow those from the analysis in UR's consultation for gas year 22/23, i.e., any introduction of short term exit capacity products would result:

- in a lowering of the exit capacity tariff;
- in a less pronounced transfer to cost recovery from the power generation sector to the gas distribution sector; and
- increases to the volatility of the year end reconciliation.

However, the above results assume that the forecasts used for the modelling will be reflective of actual for future gas years which is extremely difficult given the level of changes that are anticipated, as discussed earlier in this response, and the uncertainties they bring.

Phoenix would also highlight that one additional assumption that significantly impacts the reconciliation process for the NI Postalised regime is the revenue adjustments required for the Mutual asset to reflect their opex adjustments (as discussed further in Phoenix's response to question 8.18). This is another variable, in addition to those discussed earlier, that makes it difficult to model the true impact of introducing short term exit capacity products in NI.

Ratchet mechanism

8.10 Irrespective of whether short term exit capacity products are introduced do you consider that the ratchet mechanism needs to be reviewed? If so why?

8.11 Do you agree with our proposal to replace the ratchet mechanism with a capacity overrun mechanism? If not are there any other alternatives to capacity overrun mechanism you can suggest?

8.12 Are there any circumstances which would warrant the retention of the ratchet mechanism?

The current ratchet mechanism encourages and incentivises shippers to accurately book the annual exit capacity that they will be utilising. This is essential for ensuring that calculated tariffs are stable and any volatility to the year-end reconciliation is reduced. Any replacement of, or amendment to, the ratchet mechanism must continue to encourage and incentivise shippers to accurately book for their exit capacity needs and not expose other shippers to additional risk.

One amendment to the current ratchet that could be considered is to replicate the ratchet mechanism that is applied to Daily Metered customers[9] utilising gas distribution networks. This ratchet only applies going forward rather than being retrospectively applied for the full gas year. This approach would ensure that shippers pay for the capacity they are utilising on the transmission network without incurring additional charges for historic periods.

Phoenix would welcome engagement and consultation on the details of any proposed alternative to the ratchet mechanism before it is implemented to ensure that all risks are properly assessed. This would include clarity on how monies recovered through the mechanism would be allocated, i.e., would they be included with the Code Charges in the NI Network Gas Transmission Code (as currently done for entry overrun charges) or would they contribute to the Transporter's Annual Required Revenue (which would reduce the unit cost of capacity for all Shippers through the NI Postalised gas regime)?

Cost recovery between power and distribution sectors

8.13 Do Respondents have any views on our assessment of the impact that the introduction of short term exit capacity products may have on how gas transmission required revenues are allocated between the power and distribution sectors?

Phoenix has reviewed Figure 2 from UR's consultation and notes that the scenarios result in a less pronounced transfer to cost recovery from the power generation sector to the gas distribution sector. Phoenix would again reiterate that it is difficult to ascertain if this trend will be reflected in the future gas years due to the level of developments that are anticipated in the electricity and gas sectors, as discussed earlier in this response, and the uncertainties they could potentially bring.

Volatility risks

8.16 Do Respondents have any views on whether the introduction of short term exit capacity products will increase the risk of volatility in the reconciliation payment?

[9] As per section B, paragraph 10 of the Phoenix Distribution Network Code.

Phoenix notes that Figure 3 in UR's consultation supports the argument that the introduction of short term exit capacity products will increase the risk of volatility in the year-end reconciliation amount. Further modelling completed by Phoenix supports this analysis. The key factor for this aspect is the accuracy of forecasts used to determine the exit capacity tariff. As highlighted earlier in this response, Phoenix understands that short term exit capacity products will be utilised by gas fired peaking plants, dispatched by SONI at short notice, to supplement any deficit from renewable sources for generating electricity. Therefore, it will be difficult for the power sector to accurately forecast their uptake of short term exit capacity products. Comparing the forecast and actual figures for some short term entry capacity products, the variance can be significant for certain months. In addition, Phoenix notes UR's comment in paragraph 5.31 of their consultation paper, that the variance from forecast in short term entry capacity products has had a significant impact on the actual revenue recovered from capacity charges in a number of gas years.

Reviewing UR's scenario 2, with only a proportion of the daily exit capacity product actually being booked, this resulted in a reconciliation payment of c.£2m which is a significant amount of money to be recovered from shippers as a bullet payment. The current transmission regime's use of bullet payments and receipts has historically been criticised by NI shippers, including the power sector, due to the uncertainty it brings to a shipper's cashflow. For gas suppliers, recovering any bullet payment from their customer portfolio is complex, especially if the gas supplier has lost customers to other gas suppliers or through disconnection from the network within the gas year.

8.18 We would welcome views on the potential mechanisms to mitigate this risk of volatility set out in paragraph 5.40.

Upon reviewing UR's proposals in paragraph 5.40 of their consultation:

- **Reviewing the seasonal multiplier factors** – as UR notes in their consultation paper, the current seasonal multiplier factors are designed to encourage shippers to book in the summer instead of the winter, when the traditional peak requirement is expected. Up until 2020, gas suppliers had no opportunity to avail of short term entry capacity products due to the initial entitlement of entry capacity and therefore patterns of usage will be limited. With the gas distribution sector experiencing their peak gas usage in winter months (and not being able to book their capacity needs at an alternative time), Phoenix would be interested to understand whether gas suppliers currently utilise short term entry capacity products to help further assess any potential mechanisms to mitigate the risk of volatility in the year-end reconciliation.

  UR's modelling shows that the smoothing of seasonal multipliers results in less volatility in the exit capacity tariff as well as a less pronounced transfer to cost recovery from the power generation sector to the gas distribution sector, yet Phoenix does have concerns that this change also results in a much higher year-end reconciliation amount. Phoenix has provided comment on the difficulties of higher year-end reconciliation amounts in response to question 8.16 above.

  In addition, Phoenix notes that UR considers the alignment of the seasonal multipliers with those offered in ROI to be beneficial to ensure there is no perverse pricing signal which affects the decisions of all-island electricity generators. Yet UR's recent 'Consultation on Seasonal Multiplier Factors for Gas Transmission' proposes to maintain the current factors into gas year 23/24 and to smooth the seasonal multipliers in gas year 24/25. Phoenix

would request clarity on the decision process for deciding whether seasonal multipliers should be smoothed in light of the benefits of alignment with ROI and the higher, and unwelcome, year-end reconciliation amounts that would likely result from the change.

- **Transparency information from GMO NI to assist Shippers to make provision for a bullet payment if required** – Phoenix welcomes the quarterly transparency information provided by GMO NI which is helpful for monitoring the performance of forecasts against actual and to assist with projecting whether a bullet payment or receipt may be needed. Phoenix would not view this existing arrangement as a mitigation in helping to reduce the volatility in the year-end reconciliation, with the introduction of short term exit capacity products, considering the year-end reconciliation is already volatile due to the current revenue adjustments required for the Mutual asset to reflect their opex adjustments. Mutual do provide an updated forecast to industry of their required revenue after the third quarter of the gas year, but significant changes still occur when the actual required revenue is determined after the gas year. The 21/22 gas year saw an increase of c.£1m from the updated forecast of required revenue due third-party causes such as the rise in wholesale gas costs that is purchased by the Transmission System Operators to operate assets such as the Beattock Compressor Station.

- **Buffer account to be used as needed to reduce any under-recovery to be made up by suppliers via reconciliation payments** – please see Phoenix's response below to question 8.19.

- **Incentives or penalties to shippers for forecasting accuracy** – please see Phoenix's response below to question 8.26.

- **Provision for a mid-year tariff review in specified circumstances** – Stable gas transportation tariffs are key for any gas supplier to assist with their customer interactions. This was the reason why gas suppliers requested for Phoenix's Postalised exit capacity tariff to be recovered on a commodity basis. Any mid-year tariff review could also result in Phoenix having to revise their Postalised exit capacity charge removing some of the stability in transportation charges required.

  Phoenix already has provisions under their 'Postalised Exit Capacity Charge Statement' to recalculate, within the gas year, their Postalised exit capacity charge which is applied to the monthly commodity throughput of a gas supplier. It should be noted that the circumstances when Phoenix would be activating this right, i.e. in the event of a significant capacity ratchet, would be unlikely due to the 1-in-20 obligation. Phoenix envisages that the arrangements for GMO NI would be more complex due to their reliance on their Delphi system which automates many of the arrangements for the NI Postalised regime. Phoenix would therefore welcome further engagement on what a mid-year tariff review would entail and the projected costs for delivering such a change, to further assess whether this could offer any mitigations in reducing the volatility in the year-end reconciliation with the introduction of short term exit capacity products.

8.19 Do you consider that the concept of a 'buffer account' should be explored further and do you have any additional thoughts on how this should operate?

Phoenix, upon reviewing the detail of paragraph 5.40 (c) of UR's consultation, believes that the creation of a 'buffer account', while having the right intent, could be legally complex to initiate and administer. Any consideration of a 'buffer account' would need to assess the impact on shipper cashflows. In addition, the impact on gas consumers would also need to be considered, as monies that would be returned to them would be used to plenish the 'buffer account'.

1 in 20 obligation and capacity booking

8.21 If short term exit capacity products were introduced, would DNOs avail of these products in order to meet the 1 in 20 obligation? Please provide reasoning for your view.

8.22 If short term exit capacity products were available who should have responsibility for booking these - the DNOs or gas suppliers? Please explain the reasons for your view.

8.23 What would be the implications of changing the booking responsibility?

Phoenix believes that it is worth highlighting that the introduction of a Licence obligation to book and hold a 1-in-20 peak day firm capacity was considered necessary to comply with the requirements of the EU Regulation on Measures to Safeguard the Security of Gas Supply (2017/1938), which was transposed into UK legislation after EU exit in The Gas (Security of Supply and Network Codes) (Amendment) (EU Exit) Regulations 2019).

Although the legislation allows for different entities to undertake the 1-in-20 capacity booking role, UR determined that the obligation should rest with DNOs in NI for the following reasons:

- to support the introduction and development of supply competition by removing complexity from the capacity booking processes;
- to prevent the hoarding of capacity by the incumbent or larger gas suppliers; and
- to prevent the double booking of capacity which would increase costs to gas consumers.

Phoenix still believes that the 1-in-20 peak day firm capacity obligation is a robust approach and that all of the above reasons are still applicable. Therefore, it seems logical that the obligation should remain with the DNOs in NI to ensure that sufficient exit capacity is booked to provide the necessary security of supply, to simplify the arrangements for all gas suppliers, and to avoid unnecessary additional costs for gas suppliers and gas consumers.

DNOs continue to facilitate customer connections to the network with the recent GD23 price control assuming a further c.35,000 connections to the Phoenix distribution network. Therefore, Phoenix believes that they are best placed to determine that sufficient exit capacity is held on the NI transmission networks to facilitate this growth rather than this becoming a gas supplier obligation.

As recognised in UR's consultation, Phoenix has a Licence obligation to consult with gas suppliers on their proposed exit capacity booking to meet their 1-in-20 obligation. As gas suppliers pick up the financial liabilities from the exit capacity booking, it is essential that they are given transparency and the opportunity to provide feedback before any booking is made on their behalf. For a DNO in NI to utilise short term exit capacity products, it is difficult to envisage how this same transparency could be provided to gas suppliers and for their feedback to be facilitated for short term products. In addition, the booking of short term exit capacity products would likely be resource intensive for the DNO to manage the process. This type of activity is outside the remit of a DNO, who does not have the necessary resources, skill set, or appropriate systems within its current organisation to facilitate this. Phoenix would therefore not be supportive of

any change to place mandatory obligations on DNOs in NI to utilise short term exit capacity products.

Phoenix would question how the day-to-day operations would work if the responsibility for booking exit capacity transferred to gas suppliers, while there was still a need to meet the legislative 1-in-20 obligation. Phoenix believes that such a change would add significant complexity to the arrangements for little benefit.

Lastly, the likelihood of Phoenix exceeding their 1-in-20 annual exit capacity booking would be unlikely. From engagement that Phoenix has had with counterpart DNOs in GB, Phoenix understands that they meet their 1-in-20 obligation wholly with the annual exit capacity product with short term products only being utilised to facilitate an extreme event, such as significant commissioning work taking place on the DNO's network. As Phoenix already factor in market growth in their forecast exit capacity requirements, this also would be an unlikely scenario.

Other:

8.24 The NI Network Gas Transmission Code includes arrangement for secondary transfer of exit capacity. Do Respondents consider that these arrangements would need to be reviewed if short term exit capacity products were available? If so, in what way?

As Phoenix has a Licence obligation to book and hold a 1-in-20 peak day firm capacity, Phoenix does not envisage a scenario where they would need to be involved in a secondary transfer of exit capacity as per the NI Network Gas Transmission Code. The exit capacity held by Phoenix is solely for the Phoenix Exit Point and this would be of no benefit to any other shipper.

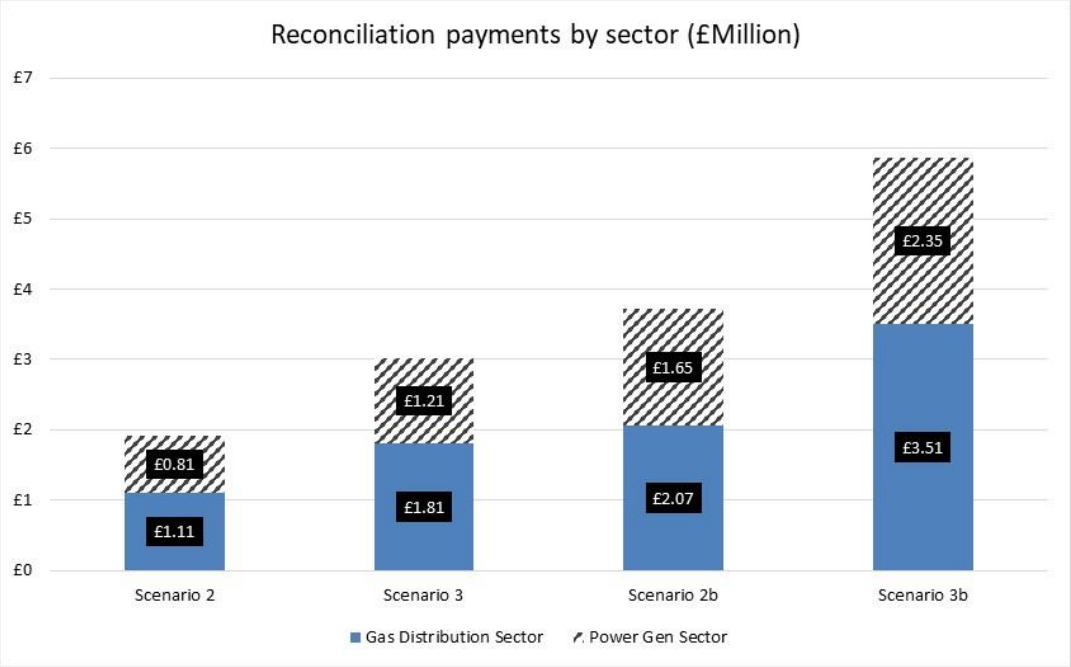
8.25 We note that a potential introduction of an ex-ante entry:exit split, which would recover a higher proportion of cost from entry capacity, could reduce the impact of the 1 in 20 obligation. Do Respondents have any views on this?

Paragraph 5.19 of UR's consultation rightly states that "the entry-exit split is an output of the reconciliation process rather than being set ex-ante. This means that the tariff calculation does not seek to direct the recovery of cost from either entry or exit capacity".

Upon reviewing the current arrangements for the entry:exit split, Phoenix would be supportive of a review of an ex-ante entry:exit split being undertaken even if short term exit capacity products are not introduced. Phoenix's analysis shows that the current entry:exit split for gas year 22/23 is 40:60 meaning that the gas distribution sector is contributing over proportionally to capacity bookings overall.

Phoenix believes that a more even split should be applied ex-ante, or even a split more weighted to entry in recognition of the DNO's 1-in-20 obligation, an obligation that all shippers do not have at entry or the power sector at exit. This arrangement would also provide a number of additional benefits:

- Phoenix's modelling shows that by applying an ex-ante entry:exit split of 50:50 to UR's scenario analysis for gas year 22/23, this would slightly reduce the volatility of the year-end reconciliation where short term exit capacity products to be introduced.



- With less required revenue being recovered via exit, this will reduce the sum of monies that Phoenix will need to recover from gas suppliers, as detailed in Phoenix's response to question 8.4, and thereby reduce the volatility that could be experienced through the reconciliation process that Phoenix undertakes with gas suppliers. With a greater weighting to entry, gas suppliers would be in more control of their costs incurred from capacity booking.

8.26 We are interested in views on how forecasting of gas capacity bookings could be improved at entry and exit points.

Phoenix notes, as per paragraphs 5.77 to 5.79 of UR's consultation, all the work that is currently undertaken in the gas sector to encourage and monitor the accuracy of forecasts. Phoenix is again mindful of the difficulties of forecasting the use of short term exit capacity products due to the drivers for their utilisation, as discussed earlier in this response.

Conclusion

In summary, Phoenix questions the benefit that the introduction of short term exit capacity products will bring to the NI Postalised regime and the benefits that will be experienced by electricity and gas consumers. As detailed earlier in this response, it is difficult to conclude how this can be properly assessed unless a cost benefit analysis is undertaken.

With the significant developments that will be occurring in the electricity and gas sectors in NI over the coming years, Phoenix questions whether this is a suitable time for such a significant change to be made to the NI Postalised regime given the uncertainties that may result.

The NI DNOs are also targeted with developing the natural gas industry by maximising the number of connections to their networks, with a robust and stable gas transportation regime critical to assisting in the delivery of this. The NI Postalised regime must produce workable processes as well as stability in gas transportation tariffs to encourage shippers to participate in the market and encourage consumers to invest in the product. Proposals which lead to increased uncertainty in gas supplier

cashflows will discourage market participation, damage consumer confidence, and therefore will restrict future network growth. It should be noted that if the growth on DNO networks is not realised then costs to all gas industry participants may rise.

Phoenix would highlight that the case for reform being presented by the power sector in NI for the introduction of short term exit capacity products remains a matter that would be more suitably resolved through the electricity market rather than implementing significant changes to the NI Postalised gas regime to the detriment of all Shippers.

The principles of a Postalised regime to deliver a fair and equitable approach to gas transmission tariffing already requires gas consumers in the Phoenix distribution network area to cross subsidise in part the power sector in NI. Therefore, any further proposals which may result in further subsidy of one sector over another needs to be avoided, and therefore introduction of short term exit capacity products in NI cannot be supported by Phoenix.