Response by Energia to Utility Regulator Consultation Paper

Consultation on Tariff Arrangements for Short Term Daily Capacity and Virtual Reverse Flow Products in Northern Ireland

18 June 2012

1. Introduction

Energia welcomes the opportunity to respond to this Utility Regulator (UR) consultation paper on proposed tariff arrangements for short term daily capacity and Virtual Reverse Flow (VRF) products in Northern Ireland. These arrangements represent an important step towards compliance with the European Commission's Second Package of measures to facilitate the creation of an Internal Market for Energy (IME), published in 2005.

Since the notification of infringement proceedings taken by the European Commission against Ireland and the UK in the European Court of Justice, Energia has supported the necessary policy and product developments introduced by both Regulators Authorities (RAs), namely the Commission for Energy Regulation and UR. It remains Energia's view that compliance is paramount and should be prioritised. However, it is of fundamental important that compliance is capable of delivering the changes and expected benefits, to customers and shippers, foreseen in both IME2 and IME3.

The remainder of this response provides some general comments in relation to compliance, as well as specific comments on aspects of the consultation paper.

2. General Comments

Firstly, it is important to clarify that the sole purpose of the Common Arrangements for Gas (CAG) workstream was not to deliver compliance with the requirements of IME2. The CAG workstream was postponed in 2011 to allow for a more thorough assessment of the options to delivering a common gas market on the island, such that identifiable benefits are captured and accrue to gas shippers and customers on the island of Ireland. The previous CAG process had failed to identify such benefits and appeared to only offer a potentially costly, albeit convenient, route to compliance for the RAs. Such a principle, regulatory convenience, should not be a driver of market change but instead is more appropriately seen as an associated benefit of change brought about to the benefit of customers on the island. Energia remains committed to the development of an all-island gas market that can provide benefits to customers.

In the context of all of the proposed changes to the NI Gas Codes and the regulation of gas products and tariffs, it is important that such changes;

- fully satisfy the infringement notice;
- are consistent with further and future changes (e.g. entry/exit and European Network Codes) such that change is minimised and certainty provided to market participants; and,
- facilitate the realisation of the expected benefits, as envisaged in both IME2 and IME3, in areas such as trading, flexibility and liquidity, to the ultimate benefit of customers.

As outlined in the following sub-section, Energia has concerns surrounding a number of these points, in the context of UR's proposed changes.

Short Term Products

Energia notes the consistent methodology to be applied in NI with respect to short term capacity tariffs, to that applied by CER. The recent proposed change to the capacity multipliers proposed by CER is likely to create an inconsistency with respect to the values but we would expect this to be an issue easily addressed as part of future work on the development of an all-island market and common arrangements.

The UR approach to the treatment of revenues for new products belies a issue of significant concern for Energia, the implementation of a products expected to be of no benefit to shippers and as such forecast to generate zero additional revenue (3.9, p.5). Despite Energia's facilitation of the changes required for compliance, the proposed short term product arrangements are considered to be wholly inappropriate, overly restrictive, questionable in terms of compliance with IME2/3 requirements and ultimately of little to no benefit to shippers. Following on from the satisfactory completion of this infringement work, Energia calls on UR to immediately review the product offered with a view to providing a product of benefit to shippers.

Following this, it will be important to reconsider the treatment of revenues from such products, as well as the consistency of enduring elements of the current approach, designed specifically to ensure timely compliance, and further required changes arising from IME3 and the European Network Codes, a number of which are currently in development.

Virtual Reverse Flow Tariffs

Notwithstanding the prioritisation of compliance, Energia fundamentally objects to the principle of charging an administrative flat fee (annual charge) for the use of VRF. VRF products should be charged in accordance with their economic cost and as such should, similar to forward flow products, have both an associated capacity and commodity charge. VRF products are dependent on the forward-flow of gas and as a proxy for physical reverse flow there is no economic basis for alternative tariff arrangements.

Energia similarly objected to the imposition of such arrangements in the Republic of Ireland and have urged the CER to review these arrangements.