Power NI Energy Limited
Power Procurement Business (PPB)

Consultation on Harmonised Transmission Tariffs for Gas

Consultation Paper

Dated 21 June 2018

Response by Power NI Energy (PPB)

30 August 2018.

Introduction

Power NI Energy – Power Procurement Business ("PPB") welcomes the opportunity to respond to the consultation paper on Harmonised Transmission Tariffs for gas.

General Comments

PPB has previously expressed its concerns with the postalised arrangements that result in gas consumers who only use a subset of the gas transmission system being charged for the full transmission system which is not consistent with an Entry-Exit regime.

We have also previously commented on the lack of short term Exit products which creates distortions in the single electricity market and which we consider requires harmonisation.

Specific responses to the Questions posed

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. Specifically, do respondents consider that the postalised regime enables network users to reproduce the calculation of reference prices and a forecast for future years?

As we have previously noted, we do not consider that the postalised arrangements satisfy the requirement of "*Ensuring non-discrimination and preventing undue cross-subsidy*" requirements and justifying its retention on the basis the arrangement is enshrined in legislation and has been so since 2004 does not of itself make it compliant.

In relation to the specific query on reproducing the calculation and being able to forecast prices in future years, this is clearly not the case and the tariff change for 2018/19 illustrates the point. The tariff publication for 2017/18 also included a forecast for 2018/19. However the actual tariffs for 2018/19 (which were produced only 9 months later) are c30% higher that the previous forecast. That deviation clearly 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.

There is not much that can be said other than to note that Article 16(1)(a)(iii) of the TAR NC seems to require consultation whereas the tariff in NI is simply presented as the new tariff without consultation.

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?

We acknowledge that Article 4(3) of the TAR NC requires revenue recovery to be capacity based bar the exceptions, including the flow/volume based charge.

Paragraph 5.13 states that, in GT17, compressor duel costs comprised c2% of revenues but then states that other small variable costs means that it is “considered” that no more than 5% of transmission costs are variable. We would have expected it to be relatively easy to identify the historic variable costs and that those should have been specifically provided as part of the consultation rather than being vaguely noted. It would also have been useful to understand the volatility of these variable costs as a result of, for example, commodity price variations.

In the absence of this analysis, it is not possible to fully comment but on the basis that there are different underlying costs in NI relative to both RoI and GB it is clear that there is no need for alignment. Based on the information provided, it appears that the NI Capacity element could be anywhere between 95% and 98% and hence in the absence of further information the 95% capacity element would appear to be the floor that would satisfy the NC requirement.

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

As noted in our response to Question 3, it would have been better to have set out an analysis, for each of the TSOs, of the historic costs that are variable and based on gas volume throughput. It would also have been useful to have set out forecasts including sensitivity analysis based on assumed cost drivers. This would have enabled more informed comment.

Question 5: Do respondents consider that the information published alongside the postalised tariff provides the information listed in paragraph 6.1?

On the assumption that once set, the Capacity:Commodity split will not vary annually, the other information that would be useful is more detail on the tariff assumptions around quantities of Short Term products. However this relates to capacity rather than commodity charges.

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?

We have no reason to disagree with the view that all services are transmission services.

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

The concept of seasonal and multipliers for short term products is recognised. However the primary question is on the derivation of the factors which must ensure there are sound economic principles to underpin the relativity of costs across periods. For example, it isn't intuitively obvious why the February factors are so much higher than the January ones. The derivation of the factors must not merely be an arbitrary process but must be based on as set of justifiable principles.

Question 8: We welcome views on the aspects listed in paragraph 7.15, 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?

We agree that the factors should remain aligned between NI and RoI although we consider than NI should not simply adopt the RoI factors but should have influence over the derivation of the factors such that they are reflective of circumstances in both jurisdictions. We fully support the comments made in paragraph 7.8 and believe these principles should also apply to exit products to ensure alignment and "*no perverse pricing signals which affects the decisions of all-island electricity generators*".

Question 9: We would ask the respondents to share their view as to whether the transmission charges publications outlined in the table above 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.

In general the publications are sufficient. The one issue that has caused difficulty is the volatility of tariffs which we have already highlighted in our response to Question 1 above (relating to example that the tariff for 2018/19 published on 31 May 2018 was c30% higher than the forecast for 2018/19 provided on 1 September 2017).

Such volatility makes a nonsense of predictability of tariff trends and makes it difficult for users to budget gas transportation costs to a reasonable level of accuracy.