



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

Review of the Regulatory Framework for the Retail Gas
Market
Competition Review Q1 2011

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Abstract:

In its decision paper on the Roadmap for Deregulation (CER/11/071), the CER set out a number of criteria which must be fulfilled before deregulation can occur in a relevant gas retail market. This review provides an assessment for Q1 2011.

Target Audience:

This paper is for the attention of members of the public, the energy industry, and all other interested parties.

Related Documents:

- CER/11/071: Roadmap for Deregulation in the Non-Daily Metered Retail Gas Market.

For further information on details in this paper; please contact Stuart Coleman (scoleman@cer.ie) at the CER.

Executive Summary

This is the first competition review of the Non Daily Metered (NDM) gas retail markets. It forms part of the process towards deregulation of the retail gas market. This review will also incorporate details normally published in the quarterly gas market updates.

This review assesses whether any of the three relevant markets identified in the decision paper: “CER/11/071 Roadmap for Deregulation in the Non-Daily Metered Retail Gas Market” fulfils the criteria for allowing deregulation. These markets are the Fuel Variation Tariff market, NDM Industrial & Commercial and NDM Residential markets.

Deregulation can occur in a market if the following criteria are met:

- I. There are at least three suppliers active in the relevant market; and
- II. There is a minimum of two independent suppliers, each of which has at least 10% share of volume consumption for the FVT and NDM I&C markets or 10% share by customer numbers in the Residential market.
- III. For the FVT and NDM I&C market sectors Bord Gáis Energy’s (BG Energy) market share by volume must be less than 50%. For the NDM residential sector a final decision is not being taken for the moment, but, the market share threshold for tariff deregulation will almost certainly be 60% or lower. The CER is minded to conclude that the market share threshold for tariff deregulation should be lower if the BGE brand is to reside in the company’s retail rather than networks business, but, again, a final decision on this issue is not being taken for the moment.

There is one additional requirement for the domestic sector. The annual switching rate must be greater than 10%.

Following review the CER has concluded the FVT and NDM I&C market sectors have met the criteria for deregulation. The domestic sector is still some way from reaching the required criteria and will be kept under review. The deregulation of the FVT and NDM I&C market sectors is effective from 1st October 2011. BG Energy, however are allowed to offer contracts for gas for delivery post 1st October 2011 from 1st July 2011.

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1.0 Introduction

1.1 Purpose of this paper

The purpose of this paper is to review the development of competition in the relevant markets identified in the decision paper: “CER/11/071 Roadmap for Deregulation in the Non-Daily Metered Retail Gas Market

1.2 Other Relevant Information

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2.0 Background

2.1 Introduction

On 26th November 2010 the CER published the consultation paper titled: “Proposals on a Roadmap for Deregulation in the Non-Daily Metered Retail Gas Market¹”. That document consulted on the circumstances under which price and revenue controls should be removed from BG Energy and related matters. A decision paper² “Roadmap for Deregulation in the Non-Daily Metered Retail Gas Market” has been published by the CER today.

2.2 Criteria for Deregulation

In the Roadmap, the CER decided that there are three separate relevant markets; FVT, NDM I&C and NDM Residential markets. Deregulation can occur in a market if the following criteria have been met:

- I. There are at least three suppliers active in the relevant market; and
- II. There is a minimum of two independent suppliers, each of which has at least 10% share of volume consumption for the FVT and NDM I&C markets or 10% share by customer numbers in the Residential market.
- III. For the FVT and NDM I&C market sectors Bord Gáis Energy’s (BG Energy) market share by volume must be less than 50%. For the NDM residential sector a final decision is not being taken for the moment, but, the market share threshold for tariff deregulation will almost certainly be 60% or lower. The CER is minded to conclude that the market share threshold for tariff deregulation should be lower if the BGE brand is to reside in the company’s retail rather than networks business, but, again, a final decision on this issue is not being taken for the moment.

There is one additional requirement for the domestic sector. The annual switching rate must be greater than 10%.

¹ CER/10/212

² CER/11/071

2.3 Details of Competition Reviews

The roadmap decision paper set out the details of the competition reviews that the CER will undertake and these are specified below.

The CER will carry out competition reviews on a quarterly basis³ in April, July, October and January. The number of active suppliers in a given market will be determined on Gas Point Registration Operator (GPRO) data. Supplier market share will then be calculated as follows:

- FVT and NDM I&C markets will be assessed on the latest available consumption (GWh) data. NDM Residential will be assessed by customer numbers.
- All market shares will be calculated using historic data.
- If a market is found to have passed the thresholds and all other criteria then it will be deregulated.

³ Competition reviews will replace the Gas Market Update reports

3.0 Retail Market Analysis

In this section the three relevant NDM markets will be assessed against the deregulation criteria to assess whether any market sector has met the required criteria and can be deregulated.

3.1 Fuel Variation Tariff

In order to provide the most up to date assessment of market share, the CER has examined the supplier consumption and customer number data for Q1 2011. Table 3.1 below shows the market share for FVT suppliers for the last year.

Supplier	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011
Airtricity	-	-	0%	0%	2%
BG Energy	60%	58%	57%	54%	45%
Energia	22%	24%	25%	27%	30%
Flogas	6%	6%	7%	7%	10%
Phoenix	-	-	-	-	0%
Vayu	12%	12%	11%	12%	13%

Table 3.1: FVT market share by volume (GWh) by supplier since Q1 2010

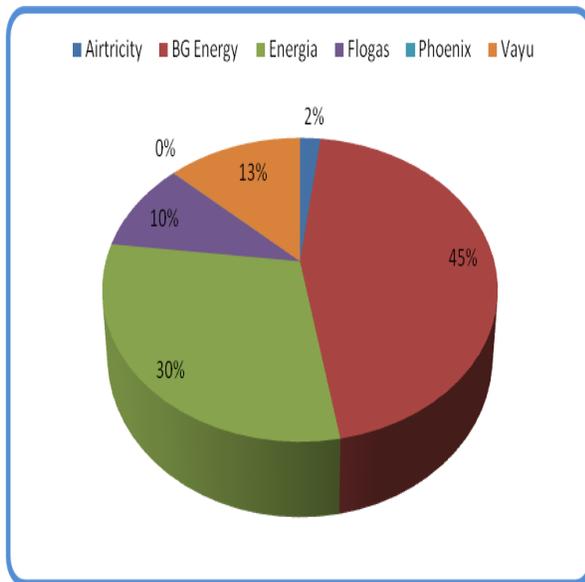


Figure 3.1: FVT market share by volume (GWh) in Q1 2011.

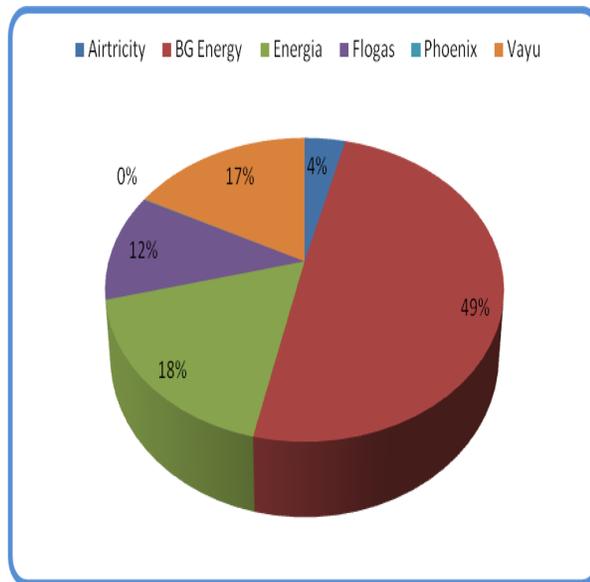


Figure 3.2: FVT market share by customer numbers in Q1 2011.

From the above data we can determine that there are more than two active suppliers in the market sector. Three independent suppliers have a market share (by consumption) greater than 10%. In addition the market share of BG Energy is less than 50%. Therefore the deregulation criteria have been met. On this basis the CER deem the FVT market sector to have satisfied all the necessary criteria for deregulation and will be deregulated from the 1st October 2011. BG Energy, however are allowed to offer contracts for gas for delivery post 1st October 2011 from 1st July 2011.

3.2 NDM I&C

In order to provide the most up to date assessment of market share, the CER has examined the supplier consumption and customer number data for Q1 2011. Table 3.2 below shows the market share for NDM I&C suppliers for the last year.

Supplier	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011
Airtricity	-	-	0%	0%	1%
BG Energy	53%	51%	49%	47%	40%
Energia	37%	39%	40%	41%	42%
Flogas	7%	7%	8%	9%	13%
Phoenix	-	-	-	0%	0%
Vayu	3%	3%	3%	3%	3%

Table 3.2: NDM I&C market share by volume (GWh) by supplier since Q1 2010

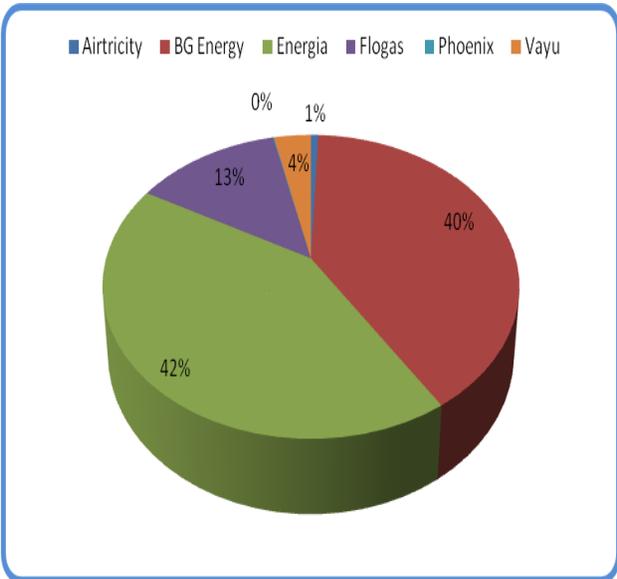


Figure 3.3: NDM I&C market share by volume (GWh) in Q1 2011.

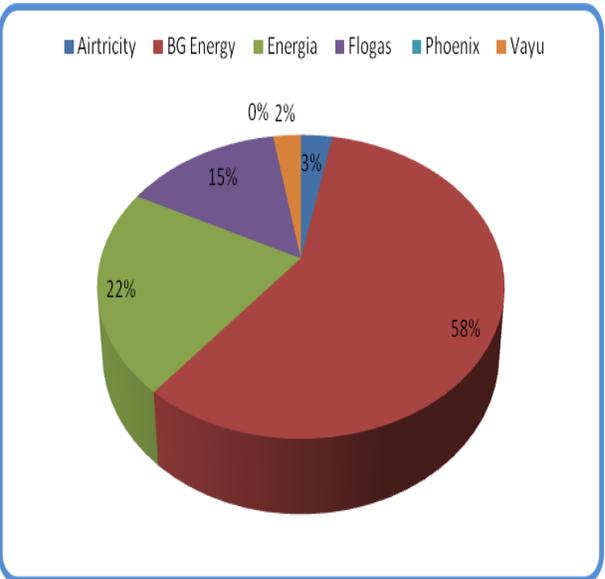


Figure 3.4: NDM I&C market share by customer numbers in Q1 2011.

From the above data we can determine that there are more than two active suppliers in the market sector. Two independent suppliers have a market share (by consumption) greater than 10%. In addition the market share of BG Energy is less than 50%. Therefore the deregulation criteria have been met. On this basis the CER deem the NDM I&C market sector to have satisfied all the necessary criteria for deregulation and is deregulated from the 1st October 2011. BG Energy, however are allowed to offer contracts for gas for delivery post 1st October 2011 from 1st July 2011.

3.3 NDM Residential

In order to provide the most up to date assessment of market share, the CER has examined the supplier consumption and customer number data for Q1 2011. Table 3.3 below shows the market share for NDM Residential suppliers for the last year.

Supplier	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011
Airtricity	-	2%	7%	12%	16%
BG Energy	98%	95%	90%	85%	81%
Electric Ireland	-	-	-	0%	0%
Energia	-	-	-	-	0%
Flogas	2%	3%	3%	3%	3%

Table 3.3: NDM Residential market share by customer numbers by supplier since Q1 2010

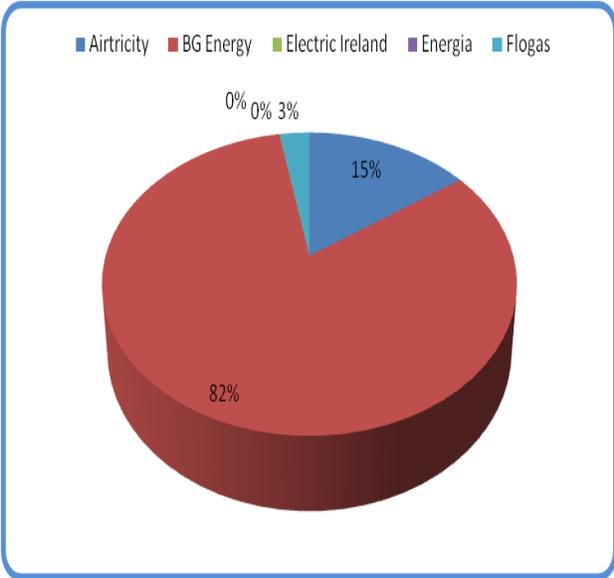


Figure 3.5: NDM Residential market share by volume (GWh) in Q1 2011.

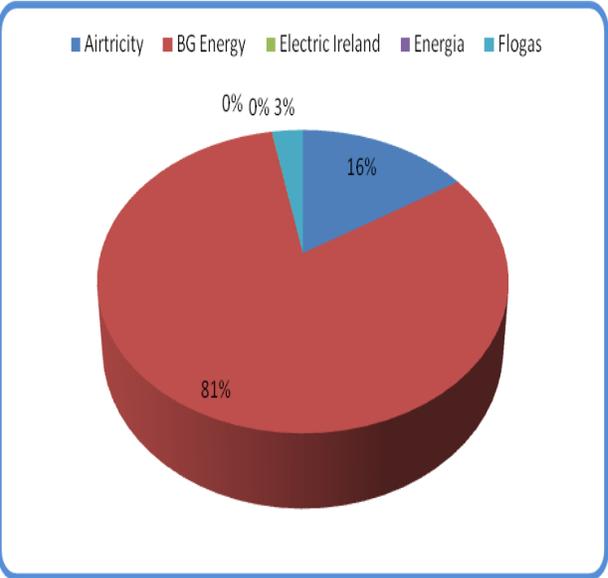


Figure 3.4: NDM I&C market share by customer numbers in Q1 2011.

Data shown above demonstrates that the domestic sector has only really become active since the entrance of Airtricity in May 2010. With the recent entrance of Electric Ireland there are now several options of competing tariffs on offer for customers.

The domestic market does not meet all the required criteria for deregulation. There are at least three active suppliers in the market, however only two of these have a market

share greater than 10%. BG Energy's market share at 81% is well above the required threshold of 60% or below. Another requirement for the domestic sector is that the annual switching rate is greater than 10%, this has been met as the switching rate for the domestic sector over the past 12 months⁴ is approximately 19%.

Looking at the switching rates over the past 6-12 months and given BG must have a market share (by customer numbers) of 60% or less, BG Energy are unlikely to be deregulated before 1st October 2011. The next competition review in July will examine likely deregulation periods for the domestic sector. This will also allow more time for the CER to monitor how effective competing suppliers are in gaining new domestic customers.

⁴ March '10 to March '11, 117,751 domestic customers switched supplier.

4.0 Switching

This section gives a breakout by supplier of the switching activity each month. All figures shown refer to completed switches. Tables 6.1&6.2 and figure 6.1 refer to switches completed by supplier for all sectors of the gas market (Powergen, Above RTF, RTF, FVT, NDM I&C and NDM Residential).

	Monthly Gains/Losses							
	Airtricity	BG Energy	Electric Ireland	Energia	Flogas	Gazprom	Phoenix	Vayu
Jan-10	2	-749	1	144	545	0	1	56
Feb-10	1	-771	0	164	594	0	0	12
Mar-10	-1	-1131	0	94	1038	0	0	0
Apr-10	6	-1420	0	116	1294	0	1	3
May-10	6	-985	0	121	847	0	0	11
Jun-10	14665	-14791	0	128	0	0	0	-2
Jul-10	14132	-14439	0	65	208	0	1	33
Aug-10	8627	-9249	0	69	506	0	0	47
Sep-10	9279	-9268	0	-17	2	0	0	4
Oct-10	11557	-11604	2	0	28	1	2	14
Nov-10	12162	-12233	3	-202	256	0	4	10
Dec-10	8695	-9135	143	-16	311	0	2	0
Jan-11	8006	-8316	1	268	20	1	8	12
Feb-11	6942	-7254	6	-83	366	0	0	23
Mar-11	6938	-7205	-1	-22	265	0	0	25

Table 4.1: Monthly Gains/Losses by supplier since January 2010

	Total Gains/Losses							
Jan 10 to	Airtricity	BG Energy	Electric Ireland	Energia	Flogas	Gazprom	Phoenix	Vayu
Mar-10	101,017	-108,550	155	829	6,280	2	19	248

Table 4.2: Total Gains/Losses by supplier since January 2010

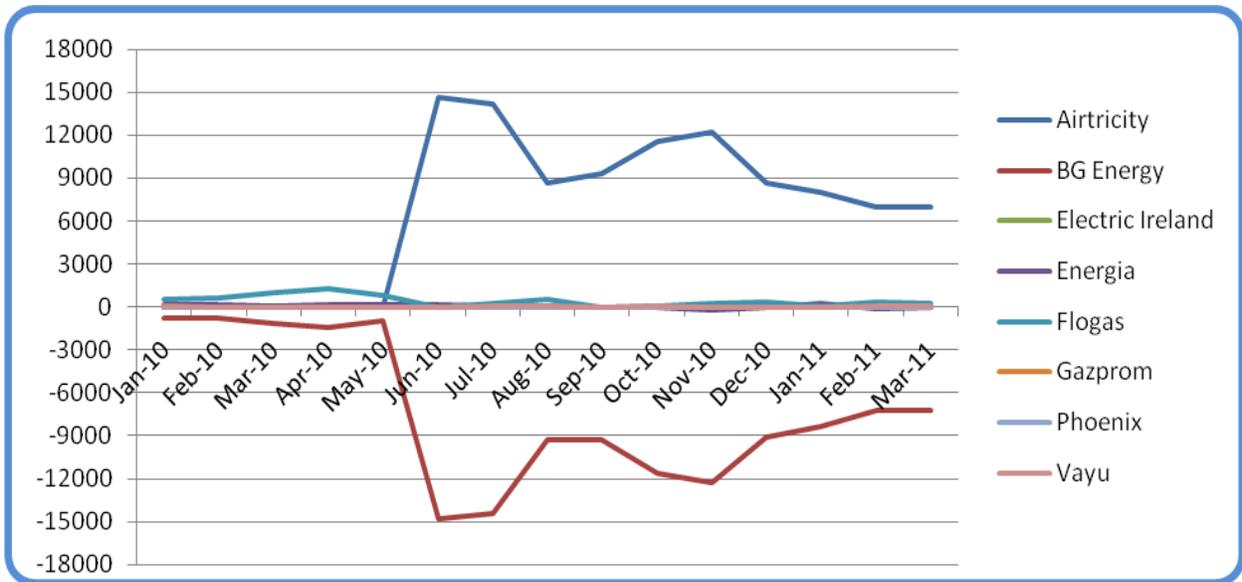


Figure 4.1: Monthly Gains/Losses by supplier since January 2010

	Losses								Total
	Airtricity	BG Energy	Electric Ireland	Energia	Flogas	Gazprom	Phoenix	Vayu	
Jan-10	0	778	0	11	26	0	0	1	816
Feb-10	0	790	0	47	40	0	0	0	877
Mar-10	1	1156	0	43	34	0	0	0	1,234
Apr-10	0	1443	0	38	37	0	0	1	1,519
May-10	0	1020	0	44	61	0	0	1	1,126
Jun-10	0	14827	0	46	832	0	0	2	15,707
Jul-10	58	14527	0	44	494	0	0	1	15,124
Aug-10	148	9427	0	38	335	0	0	0	9,948
Sep-10	260	9548	0	87	442	0	0	0	10,337
Oct-10	253	11872	0	60	527	0	0	3	12,715
Nov-10	452	12650	0	274	573	0	0	3	13,952
Dec-10	490	9597	0	80	415	0	0	0	10,582
Jan-11	640	8918	1	62	408	0	1	13	10,043
Feb-11	714	7919	3	140	339	0	0	5	9,120
Mar-11	1035	8071	1	126	455	0	0	9	9,697

Table 4.3: Total Losses by supplier since January 2010

	Gains									Total
	Airtricity	BG Energy	Electric Ireland	Energia	Flogas	Gazprom	Phoenix	Vayu		
Jan-10	2	29		1	155	571	0	1	57	816
Feb-10	1	19		0	211	634	0	0	12	877
Mar-10		25		0	137	1072	0	0	0	1,234
Apr-10	6	23		0	154	1331	0	1	4	1,519
May-10	6	35		0	165	908	0	0	12	1,126
Jun-10	14665	36		0	174	832	0	0	0	15,707
Jul-10	14190	88		0	109	702	0	1	34	15,124
Aug-10	8775	178		0	107	841	0	0	47	9,948
Sep-10	9539	280		0	70	444	0	0	4	10,337
Oct-10	11810	268		2	60	555	1	2	17	12,715
Nov-10	12614	417		3	72	829	0	4	13	13,952
Dec-10	9185	462	143		64	726	0	2	0	10,582
Jan-11	8646	602		2	330	428	1	9	25	10,043
Feb-11	7656	665		9	57	705	0	0	28	9,120
Mar-11	7973	866		0	104	720	0	0	34	9,697

Table 4.4: Total Gains by supplier since January 2010

This switching information will be published on a monthly basis following this publication.

Table 4.5 below shows the number of switches by sector in the gas market for Q1 2011.

Change of Shipper by Sector 2011							
Period:	LDM	DM	IC FVT	IC MBU	IC SBU	NDM Res	Totals
Jan-11	5	22	70	186	307	9466	10056
Feb-11	0	4	32	163	239	8907	9345
Mar-11	0	2	47	178	233	9452	9912

Table 4.5: Q1 2011 Switches completed by sector

5.0 Volumes & Customer Numbers by sector

This section gives details of consumption and customer numbers for each shipper/supplier by sector for Q1 2011, data for the PowerGen, Above RTF and RTF market sectors are also included.

	Consumption						
	Above RTF (non		Total RTF	FVT	NDM I&C	NDM Res	Total
	Power Gen	powergen)					
Airtricity	x	x	84	18	6	505	613
BG Energy	3282	215	342	415	325	2716	7296
Electric Ireland	2428	x	46	x	x	1	2475
Energia	2319	x	341	271	340	0	3271
Flogas	x	x	x	91	108	92	291
Gazprom	x	70	255	x	x	x	325
Phoenix	x	x	57	0	1	x	58
Vayu	x	x	312	120	28	x	460
Self shippers	1263	x	x	x	x	x	1263
Total	9292	285	1437	916	808	3315	16052

Table 5.1: Q1 Consumption (GWh) by sector by shipper/supplier

	Customer Numbers						
	Above RTF (non		Total RTF	FVT	NDM I&C	NDM Res	Total
	Power Gen	powergen)					
Airtricity	x	x	17	68	676	99658	100419
BG Energy	3	3	74	847	12986	505440	519353
Electric Ireland	7	x	12	x	x	147	166
Energia	4	x	61	300	4901	4	5270
Flogas	x	x	x	198	3319	18167	21684
Gazprom	x	1	9	x	x	x	10
Phoenix	x	x	15	1	4	x	20
Vayu	x	x	60	298	298	x	656
Self shippers	3	x	x	x	x	x	3
Total	17	4	248	1712	22184	623416	647581

Table 5.2: Q1 Customer Numbers by sector by shipper/supplier

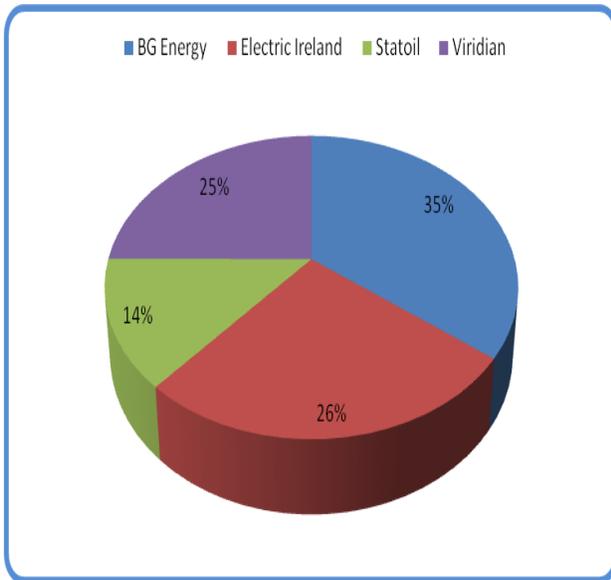


Fig 5.1 PowerGen Market Share (GWh)

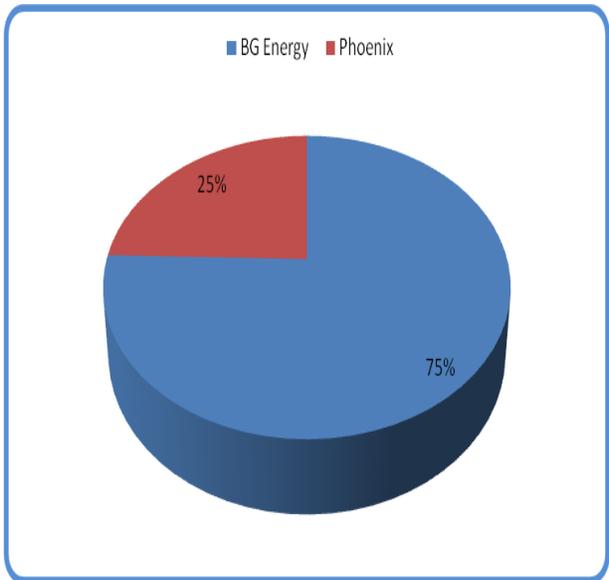


Fig 5.2 Above RTF Market Share (GWh)

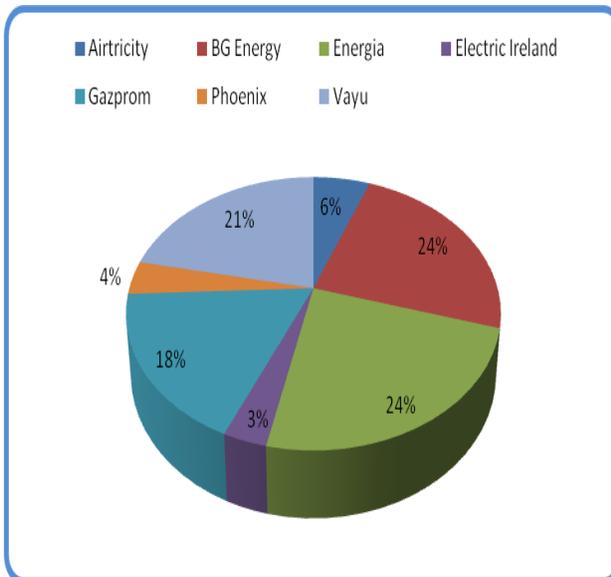


Fig 5.1 RTF Market Share (GWh)

6.0 Summary and Next Steps

6.1 Summary

The CER has concluded that the criteria for deregulation have been met in the following market sectors:

- Fuel Variation Tariff
- Non-Daily Metered Industrial & Commercial

Therefore, the above two market sectors are to be deregulated from 1st October 2011. BG Energy is allowed to offer contracts for delivery of gas post 30th September from 1st July 2011. For avoidance of doubt, all gas delivered by BG Energy to customers prior to 1st October 2011 is subject to the FVT and NDM I&C rules.

The CER has concluded that the criteria for deregulation have not been met in the NDM Residential market sector and therefore it will remain regulated for the time being.

6.2 Next Steps

The CER will continue to monitor competition in the gas market over the coming year. The next competition review will be published in late July 2011.