



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

**Review of the Regulatory Framework for the Retail Gas
Market
Competition Review Q2 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 Q2 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/11/072 : Competition Review Q1
- 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 second 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 is an assessment of the continuing development of competition in the residential retail market and also gives an update on competition in each of the relevant business markets identified in the decision paper: “CER/11/071 Roadmap for Deregulation in the Non-Daily Metered Retail Gas Market”. These markets are the Fuel Variation Tariff market, NDM Industrial & Commercial and NDM Residential markets.

The decision paper stated that deregulation could 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%.

The CER has concluded¹ that the FVT and NDM I&C markets will be deregulated from 1st October 2011. BG Energy has been allowed since 1st July 2011 to offer contracts for gas for delivery post 1st October 2011.

Following review the CER has concluded that the domestic sector is still some way from reaching the required criteria and will be kept under review.

¹ CER/11/072

- BG Energy's market share in the residential market is 78%
- Only one independent supplier holds a market share higher than 10%
- Annual switching rate is 21%

A final decision on the deregulation threshold for the NDM residential market and BGE brand will be made by the end of 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. The paper will determine if the domestic market fulfils the market share criteria to allow for deregulation. The paper also provides an update on competition in the relevant business markets.

1.2 Other Relevant Information

If you have any questions or queries about this information note, please contact:

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2.0 Background

2.1 Introduction

On 7th June 2011 the CER published the decision paper titled: “Roadmap for Deregulation in the Non-Daily Metered Retail Gas Market²”. That document set out the framework for how and when the retail gas market would be deregulated.

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%.

² CER/11/071

2.3 Details of Competition Reviews

The first competition review concluded that the two relevant business markets had met the criteria to be deregulated.

The CER carried out the first competition review in June 2011, post this July review the final review for 2011 will be carried out in October 2011. The CER intend to 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

This section contains the market update for the two relevant NDM business sectors and examines whether the domestic market 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 Q2 2011. Table 3.1 below shows the market share for FVT suppliers for the last year.

Supplier	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011
Airtricity	-	0%	0%	2%	2%
BG Energy	58%	57%	54%	45%	43%
Electric Ireland	-	-	-	-	0%
Energia	24%	25%	27%	30%	30%
Flogas	6%	7%	7%	10%	11%
Phoenix	-	-	-	0%	0%
Vayu	12%	11%	12%	13%	14%

Table 3.1: FVT market share by volume (GWh) by supplier since Q2 2010

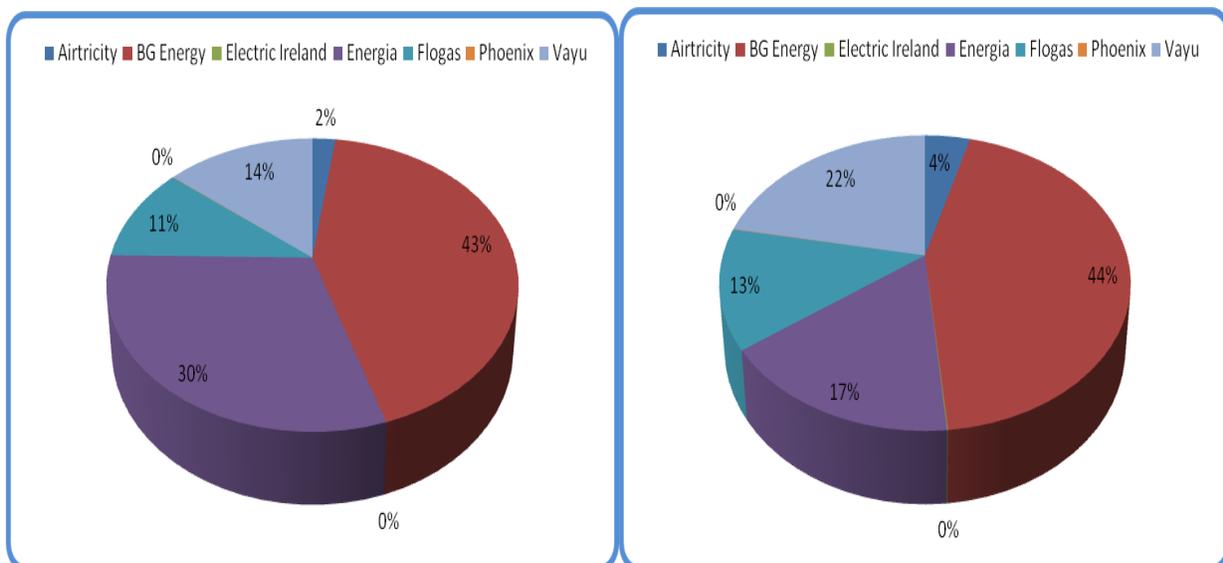


Figure 3.1: FVT market share by volume (GWh) in Q2 2011.

Figure 3.2: FVT market share by customer numbers in Q2 2011.

From the above data we can determine there have been no major changes to market shares since the Q1 review. BG Energy has lost a further 2% market share and Electric Ireland has recently entered the FVT market sector.

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 Q2 2011. Table 3.2 below shows the market share for NDM I&C suppliers for the last year.

Supplier	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011
Airtricity	-	0%	0%	1%	1%
BG Energy	51%	49%	47%	40%	39%
Electric Ireland	-	-	-	-	0%
Energia	39%	40%	41%	42%	42%
Flogas	7%	8%	9%	13%	15%
Phoenix	-	-	0%	0%	0%
Vayu	3%	3%	3%	3%	3%

Table 3.2: NDM I&C market share by volume (GWh) by supplier since Q2 2010

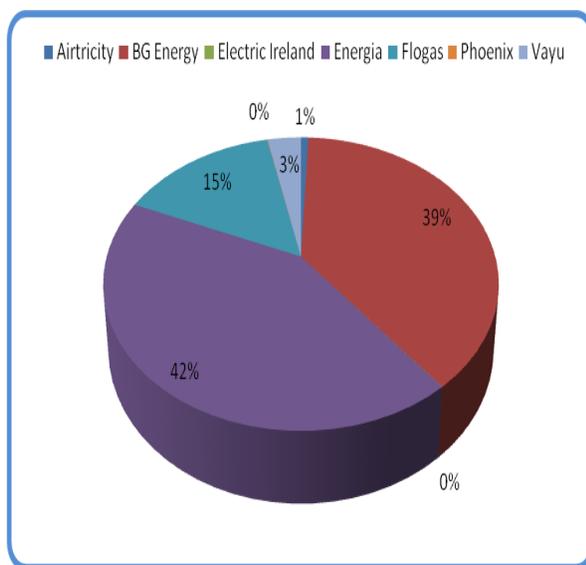


Figure 3.3: NDM I&C market share by volume (GWh) in Q2 2011.

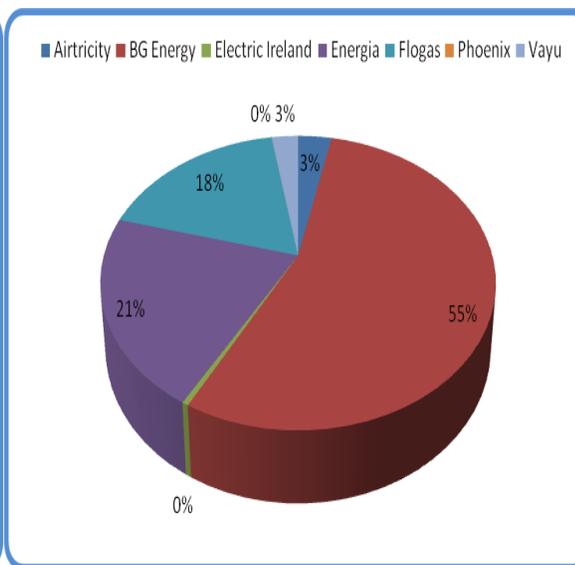


Figure 3.4: NDM I&C market share by customer numbers in Q2 2011.

From the above data we can determine that BG Energy’s market share of the NDM I&C market sector continues to decline while Flogas has increased its market share by 2%. Electric Ireland has also recently entered this market sector.

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 Q2 2011. Table 3.3 below shows the market share for NDM Residential suppliers for the last year.

Supplier	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011
Airtricity	2%	7%	12%	16%	17%
BG Energy	95%	90%	85%	81%	78%
Electric Ireland	-	-	0%	0%	2%
Energia	-	-	-	0%	-
Flogas	3%	3%	3%	3%	3%
Vayu	-	-	-	-	0%

Table 3.3: NDM Residential market share by customer numbers by supplier since Q2 2010

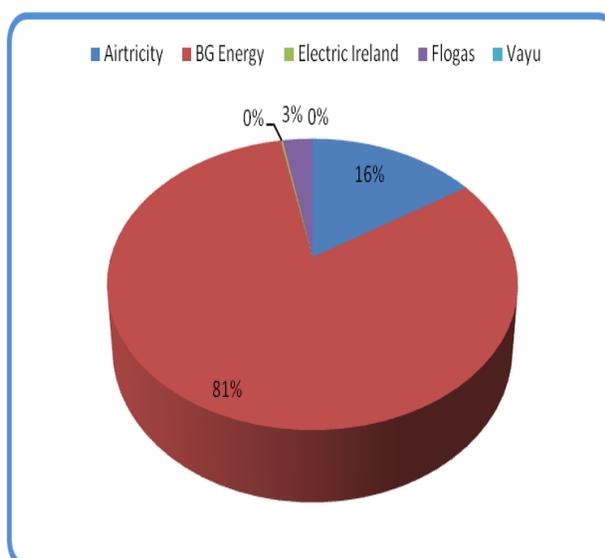


Figure 3.5: NDM Residential market share by volume (GWh) in Q2 2011.

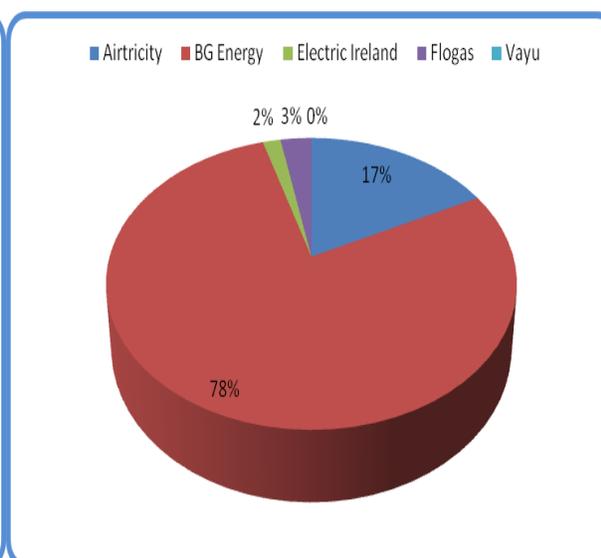


Figure 3.6: NDM Residential market share by Customer numbers in Q2 2011.

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 78% is well above the expected 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 21%.

Looking at the switching rates over the past 6-12 months and given BG Energy must have a market share (by customer numbers) of 60% or less, BG Energy are unlikely to be deregulated before the end of 2011.

BG Energy had 486,290 residential customers at the end of June 2011. If the deregulation threshold was set at 60% or lower BG Energy would have to have a residential customer base of approximately 374,000⁵ or lower. Looking at general switching trends (monthly losses/gains) over the past six months for BG Energy they are averaging a loss of approx 7,200 customers a month. Over a 12 month period they are averaging a loss of approximately 9,100 customers a month. Even taking the higher average loss figure and projecting it forward, it would take at least a further 12 months (June 2012) for BG Energy to reach a 60% market share or lower.

A final decision on the deregulation threshold for the NDM residential market and BGE brand will be made by the end of 2011; this will set the required criteria that BG Energy must meet in the NDM residential sector before they can be fully deregulated.

The next competition review in late October will further examine likely deregulation periods for the domestic market sector.

⁴ June '10 to June '11, 127,969 domestic customers switched supplier.

⁵ At the end of Q2 2011 there were 624,609 residential customers

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
Apr-11	4314	-7274	2835	-73	199	0	1	-2
May-11	3026	-6748	3457	-36	277	0	1	23
Jun - 11	2535	-6664	3945	-76	245	0	0	15

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

Jan 10 to	Total Gains/Losses							
	Airtricity	BG Energy	Electric Ireland	Energia	Flogas	Gazprom	Phoenix	Vayu
Jun-10	110,892	-129,236	10,392	644	7,001	2	21	284

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

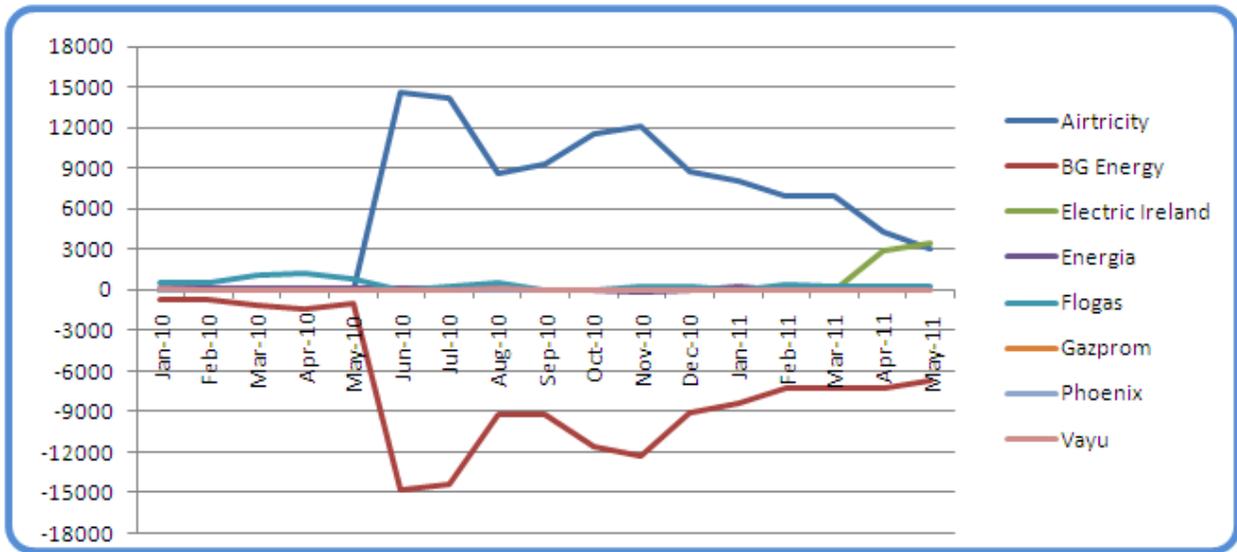


Figure 4.1: Monthly Gains/Losses by supplier since January 2010

	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
Apr-11	1281	8083		0	160	571	0	0	6	10,101
May-11	1568	7651		21	100	436	0	0	4	9,780
Jun-11	2050	7580		33	149	394	0	0	2	10208

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
Apr-11	5595	809	2835	87	770	0	1	4	10,101
May-11	4594	903	3478	64	713	0	1	27	9,780
Jun-11	4585	916	3978	73	639	0	0	17	10208

Table 4.4: Total Gains by supplier since January 2010

This switching information is published on a monthly basis. See the CER website link below for the latest information available:

<http://www.cer.ie/en/gas-retail-market-reports-and-publications.aspx?article=5dfb2bfb-4fc3-4947-90ce-1950e26a9b11>

Table 4.5 below shows the number of switches by sector in the gas market for H1 2011.

Change of Shipper by Sector 2011						
Period:	LDM	DM	IC FVT	IC MBU	IC SBU	NDM Res
Jan-11	5	22	70	186	307	9466
Feb-11	0	4	32	163	239	8907
Mar-11	0	2	47	178	233	9452
Apr-11	0	6	16	210	221	9837
May-11	0	1	46	222	165	9400
Jun-11	0	0	32	161	212	9898

Table 4.5: H1 2011 Switches completed by sector

5.0 Volumes & Customer Numbers by sector

This section gives details of consumption⁶ and customer numbers for each shipper/supplier by sector for Q2 2011, data for the PowerGen, Above RTF and RTF market sectors are also included. In this report data for volume consumption are cumulative for 2011. Data for customer numbers relate to figures taken on the 30th June 2011.

	Consumption						
	Power Gen	Above RTF (non powergen)	Total RTF	FVT	NDM I&C	NDM Res	Total
Airtricity	x	x	162	30	8	692	892
BG Energy	6,094	535	688	589	449	3,554	11,909
Electric Ireland	4,363	x	100	0	0	8	4,471
Energia	4,338	x	649	412	489	x	5,889
Flogas	x	x	x	146	177	123	446
Gazprom	x	x	501	x	x	x	501
Phoenix	x	152	120	1	1	x	274
Vayu	x	x	541	192	38	0	771
Self shippers	2,737	x	x	x	x	x	2,737
Total	17,532	687	2,761	1,370	1,163	4,377	27,889

Table 5.1: Q2 Consumption (GWh) by sector by shipper/supplier

	Customer Number						
	Power Gen	Above RTF (non powergen)	Total RTF	FVT	NDM I&C	NDM Res	Total
Airtricity	x	x	19	73	741	109,651	110,484
BG Energy	3	3	70	759	12,321	486,290	499,446
Electric Ireland	7	x	13	1	99	10,450	10,570
Energia	4	x	58	280	4,725	x	5,067
Flogas	x	x	x	225	4,102	18,217	22,544
Gazprom	x	x	9	x	x	x	9
Phoenix	x	1	18	1	3	x	23
Vayu	x	x	61	376	584	1	1,022
Self shippers	3	x	x	x	x	x	3
Total	17	4	248	1,715	22,575	624,609	649,168

Table 5.2: Q2 Customer Numbers by sector by shipper/supplier

⁶ The CER would like to note that Phoenix's customer numbers and associated consumption had been allocated incorrectly to Gazprom in section 5.0 "Above RTF" of the Q1 competition review. The data in the graphs were correct.

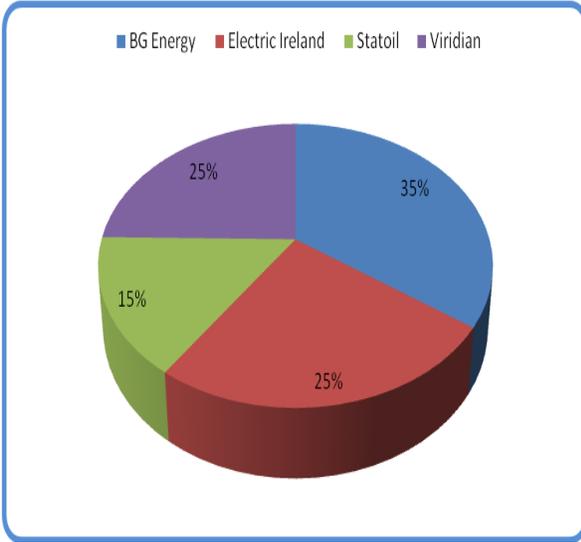


Fig 5.1 PowerGen Market Share (GWh)

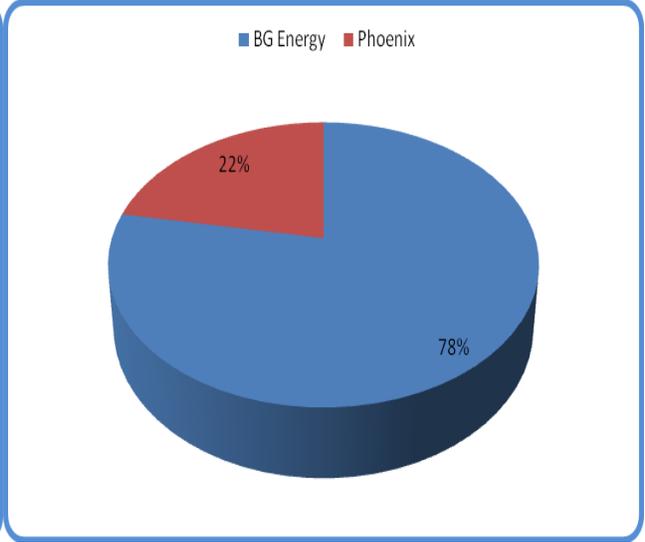


Fig 5.2 Above RTF Market Share (GWh)

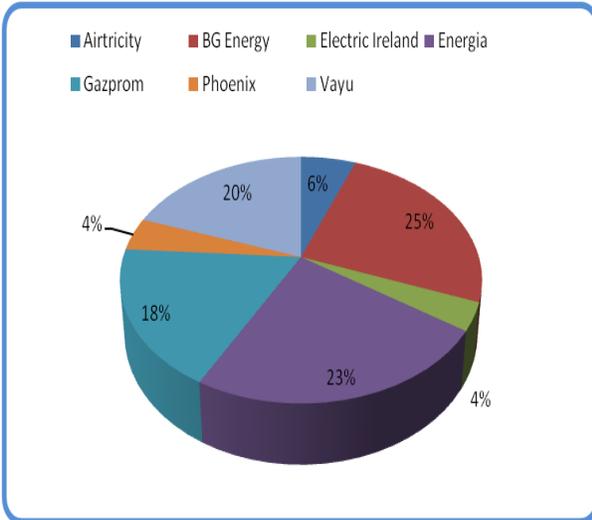


Fig 5.3 RTF Market Share (GWh)

6.0 Summary and Next Steps

6.1 Summary

The CER has concluded that the FVT and NDM I&C business markets will be deregulated from 1st October. BG Energy has been allowed since 1st July 2011 to offer contracts for gas for delivery post 1st October 2011.

The CER has concluded that the criteria for deregulation of the NDM Residential (domestic) market sector has not yet been met;-

- BG Energy had a 78% market share (customer numbers) at the end Q2 2011. Given the past 6 months switching activity, the domestic sector is still some way from reaching the required criteria.
- Only one independent supplier holds a market share higher than 10%
- Annual switching rate is 21%

BG Energy is unlikely to be deregulated before the end of 2011. The next competition review in late October will further examine likely deregulation periods for the domestic market sector.

A final decision on the deregulation threshold for the NDM residential market and BGE brand will be made by the end of 2011.

6.2 Next Steps

The CER will continue to monitor competition in the gas market. The next competition review will be published in late October 2011.