Response of Flogas Natural Gas Ltd to CER Consultation reference : CER Gas Tariff Review 2011-12 Bord Gais Energys Residential Customers

3.2 Gas Commodity Purchases 2010\11

In order to purchase natural gas suppliers are required to provide financial security to the gas provider. In addition Bord Gais Networks insists on stringent financial security requirements. Irrespective of the form of security provided there is a real cost involved. The cost of providing financial security has increased significantly in the last 18 months. These costs should be included in the gas commodity calculations.

The commission proposes that the Bord Gais residential sector regulated prices may be amended every three months without consultation. This is not satisfactory from an independent supplier perspective. We do support the general principle that retail gas tariffs should move in line with international gas (and most often oil) price trends and while we understand the need to avoid lengthy time consuming consultations it is not acceptable that the Bord Gais regulated tariffs may change in an untransparent and unexplained manner. This creates significant uncertainty for other suppliers. We believe that it should be possible to have an efficient and timely consultation with suppliers.

3.3 Supply Costs

We are alarmed at the Commissions recent decisions regarding Supply costs and the proposals contained within the current consultation paper. There are two key principles involved :

-Tariffs should be cost reflective
-The Commission should not create regulatory uncertainty

The Commission is proposing to disallow roughly Euro14 m of costs which Bord Gais has validly incurred in supplying gas to its residential customer based. This is contrary to the previously recognised and accepted principle that tariffs should be cost reflective. We understand that the majority of the disallowed costs relate to bad debt costs. These are costs which all suppliers face and it is wrong to prohibit the recovery of these costs in the market place. We are strongly of the view that full allowance should be made for actual bad debt costs in the Revenue Control Formula. If the Revenue Control Formula is out of date and no longer reflects reality then it should be changed. We believe that the K factor mechanisms should facilitate this anyway.

In relation to future bad debt costs it is our view that the proposal to increase the bad debt allowance from 0.5 % to 1% is inadequate. Based on the current economic climate and in the absence of an effective debt blocking system we believe that the allowance for bad debts should be set at 2% of sales value. We do not believe that the proposed system of debt flagging will have a material impact on bad debt levels in 2011\12.

All market suppliers incur some level of Sales and Marketing costs. In the case of Bord Gais where electricity and gas are jointly marketed these costs may not be readily transparent. It is our view that a relevant share of the Bord Gais sales and marketing costs should be included within the regulated Supply Cost figure.

The CER previously decided that Suppliers should bear 50% of the cost of credit locks/unlocks. This arbitrary decision was extremely unfair on suppliers in that no mechanism was afforded to suppliers to recover these costs in the market place. We are strongly of the view that the relevant costs should be included in the Supply Cost calculations.

The apparent decision of the Commission to move away from the principle of ensuring that Tariffs are cost reflective is in the longer term unsustainable. It also creates regulatory uncertainty which acts as a disincentive to invest in the industry. This is not in the long term interest of consumers.

3.4 Margin

The proposed margin of 2% is realistic in an environment where tariffs are cost reflective and the risk exposure of suppliers is low. Clearly this is not the environment in which suppliers now find themselves. Suppliers now face a myriad of significant business risks including price, currency ,volume, bad debt and financing. Financing costs have increased significantly. In light of the real market circumstances we believe that the allowable supply margin needs to be increased to 3%.