



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

**Review of the Regulatory Framework for the Retail Gas
Market
Competition Review Q4 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 Q4 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/11/217 : Competition Review Q3
- CER/11/134 : Competition Review Q2
- 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 fourth competition review of the Non Daily Metered (NDM) gas retail markets. It forms part of the process towards full deregulation of the retail gas market.

This review is an assessment of the continuing development of competition in the residential retail market identified in the decision paper: “CER/11/071 Roadmap for Deregulation in the Non-Daily Metered Retail Gas Market”¹.

The Roadmap decision paper stated that deregulation could occur in the residential 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 by customer numbers in the Residential market.
- III. 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.
- IV. The annual switching rate must be greater than 10%.

Following this Q4 review the CER has concluded that the residential sector is still some way from reaching the required criteria and will be kept under review.

- BG Energy’s market share in the residential market is 72.9%
- Only one independent supplier holds a market share higher than 10%
- Annual switching rate is approximately 17%

It is anticipated that a final decision on the deregulation threshold for the NDM residential market and BGE brand will be made late Q1/early Q2 of 2012.

¹ CER/11/071 identified three relevant markets: Fuel Variation Tariff (FVT) market, NDM Industrial & Commercial (I&C) and NDM Residential. FVT & NDM I&C markets were deregulated on 1st October 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 NDM Residential market identified in the decision paper: “CER/11/071 Roadmap for Deregulation in the Non-Daily Metered Retail Gas Market. This paper examines if the residential market fulfils the criteria to allow for deregulation.

1.2 Other Relevant Information

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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.
- IV. 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 CER/11/072 concluded that the two relevant business markets (FVT and NDM I&C) had met the criteria to be deregulated. The FVT and NDM I&C sectors have been deregulated since 1st October 2011.

The CER carried out three competition reviews in 2011 (CER/11072, CER/11/134, CER/11/217), this will be final competition review for 2011. The CER intend to continue carrying out competition reviews on a quarterly basis, with the next review due in late April 2012. As the FVT and NDM I&C sectors have been deregulated since 1st October 2011 the current and all future competition reviews will report on the NDM residential sector only.

The CER is planning to consolidate the various retail electricity and gas reports (market shares, change of supplier, disconnections etc) over the coming months into a single quarterly retail report. These will replace historic gas market updates.

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:

- 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.

3.0 Retail Market Analysis

This section contains the market update for the NDM residential sector.

3.1 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 Q4 2011. Table 3.1 below shows the market share for NDM Residential suppliers for the last year.

| Supplier | Q4 2011 |
|------------------|---------|
| Airtricity | 18.9% |
| BG Energy | 72.9% |
| Electric Ireland | 4.5% |
| Flogas | 3.6% |
| Vayu | 0.0% |

Table 3.1: NDM Residential market share by Customer Numbers (GPRN counts) by supplier snapshot taken 01/01/2012

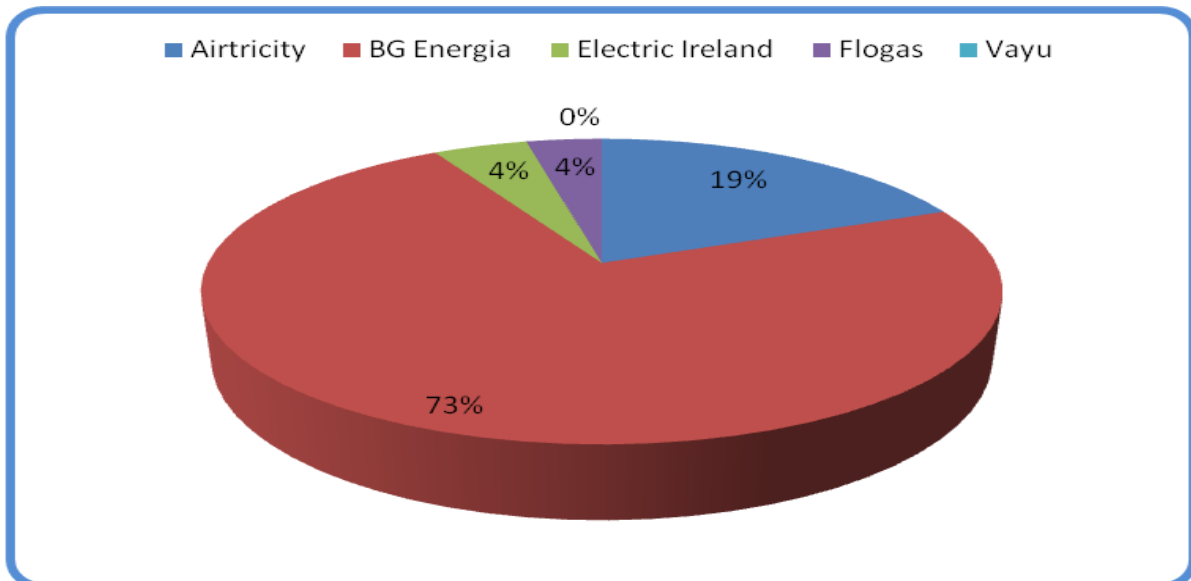


Figure 3.1: NDM Residential market share by Customer No's (GPRN count) Q4 2011

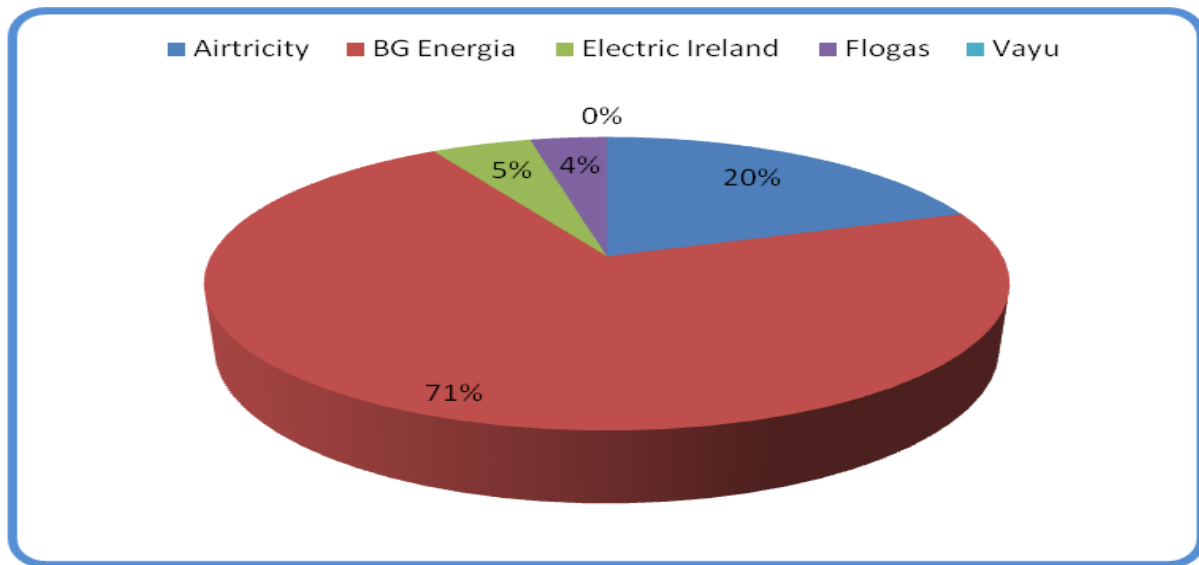


Figure 3.2: NDM Residential market share by volume (sum of AQ's) Q4 2011

| Customer Number | Total | % |
|--------------------|----------------|-------|
| Total No's | 626,899 | |
| Airtricity | 118,752 | 18.9% |
| BG Energia | 456,768 | 72.9% |
| Electric Ireland | 28,499 | 4.5% |
| Flogas | 22,879 | 3.6% |
| Vayu | 1 | 0.0% |
| Volumes | | |
| Total GWh's | 8,342 | |
| Airtricity | 1,658 | 19.9% |
| BG Energia | 5,976 | 71.6% |
| Electric Ireland | 401 | 4.8% |
| Flogas | 308 | 3.7% |
| Vayu | 0 | 0.0% |

Table 3.1: Customer Numbers³ and Volumes⁴ Q4 2011

³ GPRNs which are being charged capacity. Any site which is deregistered or tariff exempt: (locked > 2 months, no customer assigned > 1 month, and no consumption), is not included in the report.

⁴ Sum of the Annual Quantity by Shipper. The report is quarterly, and based on a snapshot in time, e.g. the data for Q4 2011 was run from a download on the 01/01/2012.

Both Airtricity and Electric Ireland continued to grow market share during 2011, while BG Energy's market share declined steadily. Flogas saw no major change to their residential market share over the course of 2011.

Criteria for Deregulation

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 72.9% 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 months⁵ is approximately 17% (see Table 4.5 for details).

Looking at the switching rates over the past 6-12 months and given that the expected threshold is 60% or less, BG Energy are unlikely to be deregulated before the end of the 2011/12 gas year.

BG Energy had 456,768 residential customers at the end of December 2011⁶. If the deregulation threshold was set at 60% or lower BG Energy would have to have a residential customer base of approximately 375,000⁷ or lower. Looking at general switching trends over all sectors (monthly losses/gains) over the past six months for BG Energy, they are averaging a net loss of approx 5,300 customers a month. Over a 12 month period they are averaging a net loss of approximately 6,300 customers a month. Even taking the higher average loss figure and projecting it forward, it would take at least a further 13 months (February 2013) 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 at the end of Q1/early Q2 2012; 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 April 2012 will further examine likely deregulation periods for the domestic market sector.

⁵ December '10 to December '11, approximately 109,267 domestic customers switched supplier.

⁶ Snapshot of GRPN counts taken on 1/01/12.

⁷ Snapshot taken on 1/01/12 showed there were 626,899 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 and 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 |
| Jul-11 | 3237 | -8497 | 5054 | -37 | 258 | 0 | 4 | 5 |
| Aug-11 | 2057 | -6856 | 4028 | 10 | 807 | 0 | 0 | -42 |
| Sep-11 | 889 | -3762 | 1576 | -11 | 1308 | 0 | 0 | 0 |
| Oct-11 | 1278 | -3956 | 1872 | -48 | 838 | 0 | 2 | 14 |
| Nov-11 | 1231 | -4838 | 2685 | -54 | 997 | 0 | 1 | -22 |
| Dec-11 | 430 | -4374 | 2883 | -15 | 1073 | 0 | 2 | 1 |

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 |
| Dec-11 | 120,014 | -161,519 | 28,490 | 489 | 12,282 | 2 | 30 | 240 |

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

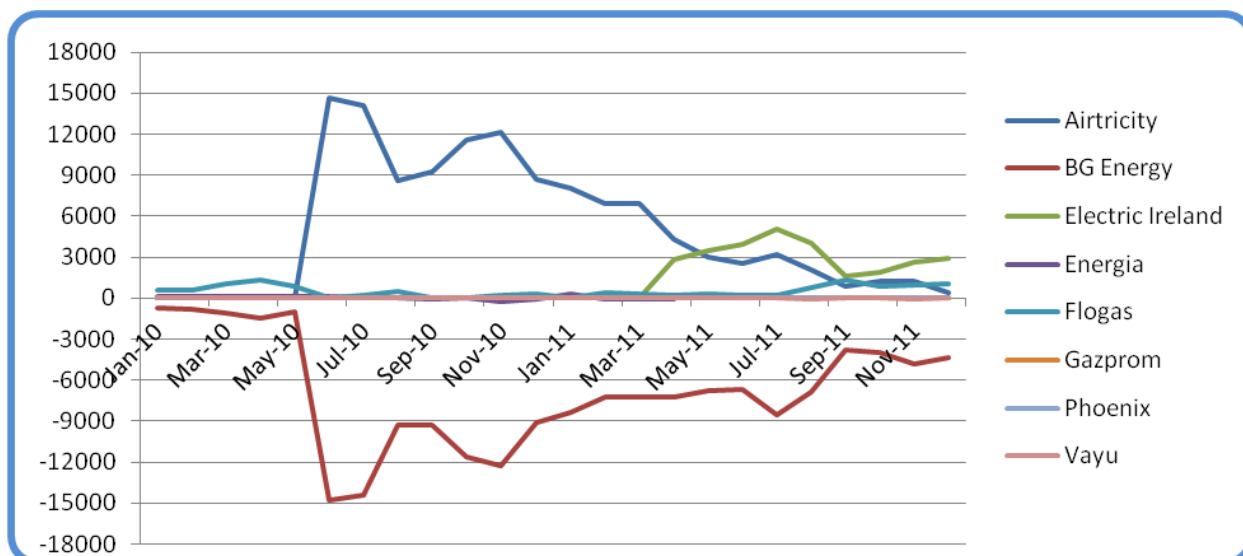


Figure 4.1: Monthly Gains/Losses by supplier since January 2010

| | 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 |
| Jul-11 | 2032 | 9474 | 58 | 133 | 385 | 0 | 0 | 2 | 12108 |
| Aug-11 | 2196 | 7764 | 100 | 94 | 293 | 0 | 0 | 47 | 10498 |
| Sep-11 | 1981 | 4893 | 158 | 84 | 301 | 0 | 0 | 3 | 7420 |
| Oct-11 | 1921 | 4983 | 225 | 67 | 324 | 0 | 0 | 5 | 7525 |
| Nov-11 | 2209 | 5768 | 412 | 78 | 367 | 0 | 0 | 32 | 8866 |
| Dec-11 | 2075 | 5142 | 285 | 58 | 378 | 0 | 0 | 4 | 7942 |

Table 4.3: Total Losses by supplier since January 2010

| | Gains | | | | | | | | | |
|--------|------------|-----------|------------------|---------|--------|---------|---------|------|-------|--------|
| | Airtricity | BG Energy | Electric Ireland | Energia | Flogas | Gazprom | Phoenix | Vayu | Total | |
| 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 | | 10,208 |
| Jul-11 | 5269 | 977 | 5112 | 96 | 643 | 0 | 4 | 7 | | 12,108 |
| Aug-11 | 4253 | 908 | 4128 | 104 | 1100 | 0 | 0 | 5 | | 10,498 |
| Sep-11 | 2870 | 1131 | 1734 | 73 | 1609 | 0 | 0 | 3 | | 7,420 |
| Oct-11 | 3199 | 1027 | 2097 | 19 | 1162 | 0 | 2 | 19 | | 7,525 |
| Nov-11 | 3440 | 930 | 3097 | 24 | 1364 | 0 | 1 | 10 | | 8,866 |
| Dec-11 | 2505 | 768 | 3168 | 43 | 1451 | 0 | 2 | 5 | | 7,942 |

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 up to the end of Q4 2011.

| Period: | LDM | DM | IC FVT | IC MBU | IC SBU | NDM Res |
|---------|-----|----|--------|--------|--------|---------|
| Jan-11 | 5 | 22 | 71 | 181 | 307 | 9,457 |
| Feb-11 | 0 | 4 | 20 | 160 | 232 | 8,704 |
| Mar-11 | 0 | 2 | 44 | 177 | 227 | 9,695 |
| Apr-11 | 0 | 6 | 16 | 208 | 214 | 9,657 |
| May-11 | 0 | 1 | 36 | 218 | 157 | 9,201 |
| Jun-11 | 0 | 0 | 21 | 161 | 222 | 9,804 |
| Jul-11 | 0 | 6 | 24 | 164 | 206 | 11,708 |
| Aug-11 | 0 | 0 | 23 | 128 | 187 | 10,160 |
| Sep-11 | 0 | 0 | 22 | 127 | 145 | 7,126 |
| Oct-11 | 2 | 5 | 29 | 67 | 89 | 7,333 |
| Nov-11 | 0 | 1 | 39 | 88 | 88 | 8,650 |
| Dec-11 | 0 | 5 | 12 | 71 | 82 | 7,772 |

Table 4.5: Q1-4 2011 Switches completed by sector

5.0 Summary and Next Steps

5.1 Summary

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 72.9% market share (customer numbers) at the end Q4 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 approximately 17%

BG Energy is unlikely to be fully deregulated before the end of 2011/12 gas year. The next competition review in late April 2012 will further examine likely deregulation periods for the domestic market sector.

It is anticipated that a final decision on the deregulation threshold for the NDM residential market and BGE brand will be made in early Q2 2012.

5.2 Next Steps

The CER will continue to monitor competition in the NDM Residential gas market. The next competition review will be published in late April 2012.