



**Response by Energia to Commission for
Energy Regulation Consultation Paper
CER/12/066**

***South-North Gas Pipeline and Compliance with EU
Law: Tariffing Arrangements for flows to and from the
Gaslink System***

06 July 2012

1. Introduction

Energia welcomes the opportunity to respond to this Commission for Energy Regulation (CER) consultation paper on the tariffing arrangements for flows to and from the Gaslink system in the South-North Pipeline (SNP). This consultation represents the latter stage of a wider process to achieve compliance with the provisions of the European Commission Regulation 1775/2005 to the satisfaction of a current infringement notice.

2. General Comment

To date Energia have facilitated regulatory developments to achieve compliance both in the Republic of Ireland and in Northern Ireland, as initiated by the respective regulators, by not raising significant issues with the simple tick-box approach being employed. It is considered important in the context of compliance that the expected benefits of the respective European Energy Packages are accessible to both shippers and customers. In the current context, we agree with the prioritisation of compliance but following the satisfactory removal of the infringement notice it is important that these arrangements are promptly reviewed such that the intended benefits can be realised.

The remainder of this response addresses some specific points with respect to the current consultation.

3. Issues relating to CER/12/066

The comments contained herein are without prejudice to the general comment already outlined on the sub-optimal solution currently being employed in order to achieve compliance in a timely manner.

Calculation of required revenue

In terms of the methodology employed to calculate the required revenue, specifically the calculation and allocation of the “Standby Cost”, Energia considers this approach to be appropriate. Importantly, this view relates only to the methodology and makes no determination on the appropriateness of the charge.

The proposed approach to entry/exit charges

Energia supports the application of entry/exit charges as they apply currently in Ireland and the UK. Gas entering and exiting distinct transmission systems should pay appropriate costs associated with this. This will, by default, include an amount attributable to the security of supply benefit provided by the interconnectedness of the system. The explicitness of this charge is largely dependent on flows through the associated pipelines but as acknowledged by the European Commission DG Energy, such a charge is appropriate. One could reasonably expect difficulties to arise where the relative flows are small (or zero). In considering such situations it is important to assess the barriers to greater flow volumes, where these might exist (e.g. if market arrangements are not conducive to commercial flows).

The requirement of shippers to hold a back-to-back booking of capacity on the BGN ICs from Moffat in order to utilise the SNP is an unfortunate requirement, notwithstanding the physical/technical requirements. The resulting tariffing implications are far from optimal but are considered appropriate in the current context. Future developments, including through the implementation of the European Network Codes and progress on developing an all-island gas market, should result in an improvement to the current situation.

Methodology for tariff setting

Energia broadly supports the methodology employed for the calculation of annual and short-term capacity tariffs. Energia have for some time been calling for a review of the 90:10 capacity/commodity split on the Irish transmission system and consider that such a review should be undertaken and any such changes reflected in these tariffs and the analogously applied to the split proposed herein.

On the issue of the default tariff, it would be preferable to move away from an arbitrarily set value to an appropriate value based on the characteristics of the system. Once the requisite review of these arrangements has been undertaken, such that products and arrangements may become a commercial option for shippers, it would seem appropriate that booking incentives on SNP be aligned with capacity booking incentives placed elsewhere on the system. The calculation of the default tariff should reflect this.

Over/Under recoveries

As already referred to, difficulties are likely to arise where there are relatively small (or zero) flows over which to recover appropriately applied charges. In light of the likelihood that under-recovery will be the relevant issue with respect to these arrangements, it must first be ascertained as to whether it is appropriate to charge shippers for the security of supply benefit in years preceding either their existence or their use of SNP. Specifically, in transferring the entire value of any under-recovery to the following year, especially where there is zero capacity bookings in these preceding years, would this amount to the imposition of an on-going charge, albeit by default rather than by design.

Away from the theoretical treatment of such issues, it will be of paramount importance to shippers following the requisite review of the current arrangements, that where commercially attractive arrangements are put in place, the resulting tariffs should not disproportionately disadvantage their use.

Northern Ireland to Ireland flows – VRF Tariff

Energia fundamentally objects to the principle of charging a flat registration fee (annual charge) for the use of VRF. VRF products should be charged in accordance with their economic cost and as such should, similar to forward flow products, have both an associated capacity and commodity charge. VRF products are dependent on the forward-flow of gas and as a proxy for physical reverse flow there is no economic basis for alternative tariff arrangements.

Energia similarly objected to the imposition of such arrangements at Moffat and although not intended to set a precedent for the treatment of VRF tariffs, it appears to have unfortunately done so. Energia similarly opposed this move in response to the Utility Regulator (UR) whose decision to adopt a similar approach was based on the CER precedent. As with many of the arrangements being put in place by both CER and UR, this requires urgent review.