

**FLOGAS RESPONSE TO CER CONSULTATION CER/13/034  
INTERIM REVIEW OF BGN ALLOWED REVENUES AND GAS TRANSMISSION  
TARIFFS 2012/13**

We acknowledge the requirement for BGN to recover the full cost of operating the gas Transmission and Distribution systems in accordance with the revenue regulations in place.

We do however strongly disagree with the specific proposals currently being put forward by the CER, whereby it is planned that cost of transporting UK gas will increase by 13.2% effective from the 1<sup>st</sup> April 2013. Our objections are based on the following concerns:

- Shippers such as Flogas have booked firm capacity at the start of the current gas year which does not expire until the 30<sup>th</sup> September 2013. The cost of booking such capacity was based on the published rates with a clear expectation that these rates would hold firm until the 30<sup>th</sup> September 2013. The CER proposal to increase rates now relating to bookings made a number of months ago effectively represents a retrospective price increase. This is not acceptable.
- Flogas has prepared its business plans for the 2012/2013 gas year based on the current transmission rates. Increasing these transmission rates now totally undermines our existing business plans. This kind of regulatory uncertainty undermines the confidence of suppliers and shippers in investing in the natural Gas supply business.
- The consequence of implementing the proposed transmission tariff increase will be that suppliers will have to inform the circa 650,000 gas consumers in Ireland that their gas tariffs are increasing with effect from the 1<sup>st</sup> April 2013. Customers are used to being notified of price changes on the 30<sup>th</sup> September but an increase on the 1<sup>st</sup> April will undoubtedly cause severe difficulties for gas consumers.
- It is clear that the current revenue shortfall being experience by BGN is due to the actions of Power Generators. It is morally wrong to attempt to transfer these costs onto Gas suppliers and their business and residential customers.

We would recommend that any current revenue shortfall be held over until the 30<sup>th</sup> September 2013 and the appropriate corrective action put in place for the new gas year. This practice has worked well in the past. Business and residential consumers expect price changes on the 30<sup>th</sup> September each year.

We believe that the CER should examine ways of addressing the problem which ensure that the Power Generation sector which has caused the revenue shortfall, solves the shortfall.

The ability of the newer market entrants (who supply gas to the business and residential sectors) to trade entry and exit capacity is an essential part of their business models. To remove this facility would undermine their competitiveness and put them at an unfair disadvantage relative to the semi state vertically integrated (historic monopolists). Suppliers of gas to the business and residential sectors should continue to be allowed to trade capacity between sectors and between suppliers as at present.

If there is an under recovery of costs in the gas Transportation system then we believe that at the appropriate time Inch transmission costs should increase also.