

Review of the CER proposals under the consultation on secondary and within-day capacity (CER/13/122)

Note prepared for Energia

July 17th 2013

Internal draft for comment: strictly confidential

1 Summary

In 2012–13 declining primary capacity bookings on the gas transport system have led to a significant network revenue shortfall. The decrease is thought to be related to a change in the booking behaviour of Daily Metered (DM) and Large Daily Metered (LDM) customers. In order to restore the revenue balance, the Commission for Energy Regulation (CER) is consulting on two main remedy measures:

- the removal of secondary capacity transfers at exit points;
- the removal of the ability to buy/transfer within-day capacity at exit points.

The CER's current consultation paper suggests that the removal of secondary capacity transfers and within-day volumes are expected to fully restore/avoid the revenue shortfall on a sustainable basis. However, no quantitative analysis of the distribution effects of each of the proposed measures on the different customer categories, or any joint effects of their simultaneous implementation, has been provided.

In contrast, in its 2010 consultation, CER/10/089, the regulator did attempt to examine the potential impact of removing secondary trading on different customer categories. Eventually, the CER admitted that it was difficult to track the resulting gains and losses across customer categories.

In the same consultation, the CER also stated that, because a significant proportion of the unused '1 in 50' Non-Daily Metered capacity was sold by BG Energy to DM and LDM customers/shippers, the tariff system may be regarded as inequitable, to the detriment of DM

Oxera Consulting is registered in England No. 2589629 and Belgium No. 0883.432.547. Registered offices at Park Central, 40/41 Park End Street, Oxford, OX1 1JD, UK, and Stephanie Square Centre, Avenue Louise 65, Box 11, 1050 Brussels, Belgium. Although every effort has been made to ensure the accuracy of the material and the integrity of the analysis presented herein, the Company accepts no liability for any actions taken on the basis of its contents.

Oxera Consulting is not licensed in the conduct of investment business, as defined in the Financial Services and Markets Act 2000. Anyone considering a specific investment should consult their own broker or other investment adviser. The Company accepts no liability for any specific investment decision, which must be at the investor's own risk.

© Oxera, 2013. All rights reserved. Except for the quotation of short passages for the purposes of criticism or review, no part may be used or reproduced without permission.

and LDM customers/shippers. In contrast to the currently proposed measures, the CER 2010 inequity finding was evidence-based.

In the absence of empirical analysis, the effects of the removal of secondary capacity transfers and within-day volumes on each customer category and sector cannot be quantified. Hence, the equitability cannot be assessed. For the same reason, it is unclear what extent of volume increases of primary bookings can be expected from these measures. Furthermore, the CER has not provided any analysis on potential adverse effects of each of the proposed measures, or any joint effects of their simultaneous implementation, on the different customer categories or downstream markets.

The CER intends to implement a remedy to a regulatory issue that it does not consider to be a short-term phenomenon. Absent any quantitative analysis and empirical evidence on the effects of these measures, there is neither certainty nor likelihood that these measures will provide a sustainable remedy.

Finally, any implementation of measures that would only partially remove booking-related revenue shortfalls would require additional measures at a later stage, or possibly a more structural reform of the economic regulation of the gas transmission system altogether.