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via e-mail only

Dear John,

Re: CER Consultation Paper CER/13/181 – Residential Gas Tariffs 2013/14

Vayu welcomes the opportunity to comment on the consultation paper: Bord Gáis Energy (“BG Energy”) Residential Gas Tariffs 2013-2014, CER/13/181. This paper reviews the BG Energy submission to the Commission for Energy Regulation (“CER”) to increase residential tariffs by 7.22%.

We note that the BG Energy submission to the CER on 9th of August was much later than in prior years. This is primarily due to the uncertainty in the market regarding the impending decisions of the CER regarding gas transmission tariffs, which as of 20 August 2013, have yet to be made. This has meant that the CER has not had adequate time to analyse the figures in detail before the consultation paper was issued. We would like to see an assurance that the submission is analysed as rigorously as in prior years.

This proposed increase, following last year’s 8.5% price hike is going to hit Customers hard and the CER must be conscious of the impact and negative reaction to these changes. For working purposes, the CER should also have directed BG Energy to make a best estimate of the tariffs that would apply if the proposals in the CER’s consultation CER/13/122 were implemented in the 2013/14 gas year. We believe that this would have resulted in a lower increase in tariffs. On this rare occasion the CER had an opportunity to be doing what is in the best interests of Customers.

To give stakeholders a clearer picture of the impact various drivers have on the price increase it would be extremely useful to show a graph as shown in Appendix 1. Our comments on individual aspects of the BG Energy submission follow:

Interruptible Capacity Sales

The submission notes that the benefits from interruptible capacity sales are recycled into NDM tariffs and also that these capacity sales would be severely curtailed due to the regulatory decision to restrict trading of exit capacity from October 2013. We note that BG Energy neglected to mention the benefit South West Kinsale storage facility products is expected to

have on tariffs year on year. This should be clarified to ensure consistency in presentation. BG Energy's submission also makes reference to additional increases in NDM tariffs if the proposals in the CER consultation paper CER/13/122 on access tariffs are implemented. We would appreciate if the CER could make specific reference to this aspect of the submission and clarify how this is possible as in future spare exit capacity from the NDM sector cannot be transferred to others sectors of the market.

Supply Costs

BGEnergy's market share of the domestic sector has dropped from 71% in Q1-12 to 62% by May-13 and the requested supply costs are proposed to increase from €22.2 million allowed in 2012/13 to €25.4 million for the coming gas year. This increase of €3.2 million over a lower Customer base would suggest that the overall increase in tariffs should be more than the proposed 7.22%, but we would like the CER to comment on this aspect of the tariff in the decision paper. In addition, BG Energy is looking for recovery of supply costs that aim to "deliver long-term efficiencies and improvements to BG Energy's customer service". We would seek clarity on why these costs would be allowable. Practically no other commercial businesses would be allowed to recover such costs from Customers.

Commodity Purchases

As with previous years, the consultation paper lacks any substantive detail with respect to the performance of BGE's energy trading unit in meeting the obligations to Customers and against the metrics for evaluation purposes. The paper notes that Z factor in 2012/13 is a benefit of approx. €3 million, suggesting an improvement in trading performance year on year. Given that the 2011/12 figure was a loss of approx. €1 million, we would suggest that BG Energy should not be allowed to continue this treatment due to the resulting volatility in tariffs. If BG Energy had been backing off their requirements in line with the allowed ladder approach, such adjustment factors would not arise. Until such time as the sector is deregulated, it should disclose the real cost or benefit to end users of allowing BG Energy trade their gas volumes.

Conclusion

Before the sector becomes fully de-regulated we fundamentally believe this tariff structure should cease and believe that this would also, in fact, help to expedite the deregulation process. It is not a transparent structure and therefore cannot be used to give alternate shippers a sustained benchmark against which to compete.

We firmly believe that market price reflectivity is the way to proceed to ensure sustainable competition can develop. Given that BG Energy is going through a sale process and still retains over 60% of the domestic market it is unlikely that it will rebrand itself in advance of the completion of this sale.

We would be grateful if the CER considers these views, the issues raised and how it proposes to address them in the decision paper.

Yours sincerely,
Bryan Hennessy

