



Consultation on the proposed Business Rules to update the Virtual Reverse Flow Product and Tariff Methodology

Phoenix Energy Response 10th January 2025

Introduction and General Assessment

Phoenix Energy (**Phoenix**) welcomes the opportunity to respond to the Gas Market Operator for Northern Ireland's (**GMO NI**) consultation on the proposed Business Rules to update the Virtual Reverse Flow (**VRF**) Product and Tariff Methodology (**Consultation**).

Northern Ireland (**NI**) has adopted challenging emissions targets and the rapid development of a large-scale biomethane industry will be required to meet both the near-term and long-term emissions targets. In 2022, Phoenix, alongside the four other NI Gas Network Operators – firmus energy, Evolve, Mutual Energy and GNI(UK) – launched a joint plan to fully decarbonise the region's gas network by 2050. This Pathway to Net Zero sets out how the gas network will transition away from natural gas to renewable alternatives such as biomethane and hydrogen to support NI's emission targets¹.

In addition, in October 2023, the NI GNOs launched five commitments to support the sustainable introduction of renewable gases in NI. This included a commitment to facilitate the injection of 1.5 TWh of biomethane into the NI Gas Network by 2030 to support the achievement of GNO, industry and government emissions targets.

This Consultation comes at a time when the NI Gas Network Operators (**GNOs**) are at the juncture where a number of NI biomethane producers are indicating their intention to sign a Network Connection Agreement to progress their projects and to inject biomethane into NI gas networks. Phoenix is keen to facilitate such interest, in line with their commitments, and to accelerate the volumes of biomethane being injected in NI to support NI's challenging emission targets.

From reviewing this Consultation, Phoenix has significant concerns regarding the proposed increase to the tariff for VRF IP Exit Capacity and the potential impact this may have on NI biomethane producers attempting to bring their green gas to the market.

¹ [NI Gas Network Pathway to Net Zero, NI Gas Network Operators, October 2022](#)

In the absence of a local NI biomethane support mechanism – which is not expected in the short term – local biomethane producers will be heavily reliant on markets outside NI to support the cost of production. Increasing the cost of accessing these alternative, external markets in the short-term is likely to jeopardise biomethane production in NI and critically undermine the ability of a nascent industry to establish momentum and support regional decarbonisation reduction targets.

Due to the impact these proposed changes will likely have, it is essential that comprehensive engagement with NI biomethane producers is undertaken before implementation to ensure their representations or objections are properly considered.

Lastly, Phoenix is conscious that this decision is being taken without a NI biomethane policy being in place. This is expected to be consulted upon and published in 2025. There would be significant merit in GMO NI considering the benefits of postponing the implementation of this increased tariff until the upcoming NI biomethane policy is better understood.

Responses to GMO NI's Consultation Questions

Phoenix has chosen to answer the Consultation questions where it believes it can add value.

a) What are your views on the proposed dynamic method for determining the available VRF IP Exit Capacity?

Phoenix is in agreement with GMO NI's assessment in paragraph 16.12 of the Consultation, where the benefits of a commercial VRF service are highlighted. Such a service will mitigate *“the need to provide additional infrastructure which could physically deliver gas from NI into GB or from NI into ROI, as well as providing the chance to offer greater forward flow capacity. In this sense, VRF makes more efficient use of the existing infrastructure and contributes to network flexibility and resilience”*.

At a time when the Scotland to NI pipeline is becoming constrained (as evidenced by the recent Entry Point Switching Agreement Declarations published by GMO NI in November/December 2024), maximising the injection of local biomethane alongside the use to VRF will be of advantage to the wider NI gas industry by potentially offering greater forward flow capacity.

Phoenix is of the opinion that the current Moffat VRF IP Exit Capacity of 1,228,000 kWh/day is very small and is therefore supportive of the VRF IP Exit Capacity being increased through the dynamic method proposed.

e) What are your views on the relevant considerations for setting the tariff for VRF IP Exit Capacity? Are there any other considerations you would like to raise?

Phoenix is in agreement with GMO NI that the current Moffat VRF IP Exit Capacity tariff of 0.0001p/kWh is too low and currently allows gas shippers to avail of Moffat VRF IP Exit Capacity for no material contribution for use of the NI transmission network.

Phoenix understands, from paragraph 17.5 of the Consultation, that it is proposed that the Moffat VRF IP Exit Capacity tariff is to be the standard reserve price for the daily forward flow capacity product. Phoenix has used the indicative tariffs published for the 2025/2026 gas year to model the potential impact this change may have on NI biomethane producers who wish to utilise VRF to the Moffat IP. Phoenix's calculations show that a typical medium sized 40 GWh/annum biomethane plant would expect to pay costs of c.£190k per annum compared a current estimated cost of 16p. This is a significant increase in cost for a biomethane producer to absorb where despite there being a market demand for biomethane, the economics already present challenges in the absence of an NI Executive support mechanism.

Phoenix notes the explanation provided by GMO NI regarding this increase in the Consultation – that Article 16 of the EU Tariff Network Code 2017/460 (**TAR-NC**), as transposed into UK legislation, sets out the principles by which VRF tariffs should be determined. Phoenix is supportive of the need to comply with relevant legislation requirements, but would ask for clarity on whether a legal opinion has been sought on whether the 'principles' set out in the TAR-NC can be deviated from – for example is the Utility Regulator empowered to postpone or turn off alignment with these principles or are there wider Department for the Economy powers that could be utilised to prevent these changes being introduced if they are not aligned to the provisions of the NI Climate Change Act and the NI Executive's legal commitment to reduce carbon emissions according to the set carbon budgets. There is an argument that this change at this time may not be in the public interest.

In addition, paragraph 17.1 of the Consultation clarifies that the tariff level must be reviewed and approved annually by the Utility Regulator as part of their annual consultation on seasonal factors and product multipliers. It would be useful to understand whether this review and approval process can result in postponement or unalignment with the principles set by the TAR-NC.

Lastly, paragraph 13.5 of the Consultation states:

“In the current NI market, for biomethane production connecting to the gas network and in the absence of grid-connected vehicle CNG filling stations, in order to benefit from Renewable Transport Fuel Certificates, it is necessary to move gas virtually out of NI via Moffat IP. Whilst this might be the main commercial driver of the use of VRF service for the time being, it should be noted that the changes being consulted upon here are not intended to target the biomethane sector. Improving the availability of the service should assist with facilitation of trade between NI and the GB (and potentially ROI) hubs more broadly and improve compliance with legislative requirements.”

While Phoenix is confident that GMO NI does not intend to target the biomethane sector, direct feedback from biomethane producers developing projects in the Phoenix Licensed Area suggests that the level of tariff increase being proposed will negatively impact on the current business plans that have been prepared by NI biomethane producers and may even lead to biomethane connections not being advanced. While the availability of the VRF service may be improved under these proposals, it will be of little benefit to NI biomethane producers if it is too expensive to utilise.

f) Do you support the proposed level of discount? If not, what level would you propose and why?

Phoenix has reviewed GMO NI’s detailed assessment regarding the proposed level of discount and understand the rationale for aligning this to discounts applied in neighbouring jurisdictions. It is important to note however that the proposed discount of 10% is immaterial when accompanied with the proposed increase to the Moffat VRF IP Exit Capacity tariff. Phoenix believes that alignment of both the tariff and discount with neighbouring jurisdictions should be considered. As mentioned earlier, Phoenix’s calculations show that a typical medium sized 40 GWh/annum biomethane plant would expect to pay costs of c.£190k per annum under the proposals of this Consultation. Using GNI’s Moffat VRF Exit tariff, Phoenix estimates that the equivalent cost for the product from the Republic of Ireland to GB to be much less at c.£63k per annum.

Biomethane developers operate in a global marketplace and can invest anywhere. NI is already seen as a challenging environment for biomethane producers due to the lack of a biomethane support mechanism, planning challenges and digestate management issues. Further weakening NI’s competitiveness could have a serious impact on the likelihood of NI biomethane projects progressing.

g) Do you have any other relevant views or comments?

The Consultation targets the implementation of the proposed arrangements to be in place for the start of the next gas year, October 2025. Phoenix has recently engaged potential biomethane producers in our Licensed Area to make them aware of this Consultation. Direct feedback received from biomethane producers suggests that the level of tariff increase being proposed will negatively impact on the current business plans that have been prepared by NI biomethane producers and may even lead to biomethane connections not being advanced.

GMO NI state that the next step in the process, subject to industry views, will be to prepare and consult on the relevant change to the NI Network Gas Transmission Code. Both PTL and GNI (UK) have a Licence obligation, for Code Modifications, to enable:

“the representations or objections, with respect to any proposal to modify the Single Network Code, made (and not withdrawn) by any other party to the Single Network Code and by other persons who are likely to be materially affected by the proposal to be properly considered” (Condition 2.4D.6 (e)).

Phoenix believes it is essential that comprehensive engagement with NI biomethane producers, who will be materially affected by these proposals, is undertaken before implementation to ensure their representations or objections are properly considered.