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24th July 2025

Network Imperfections Charges October 2026 – September 2027

To Whom it may concern,

Budget Energy and Flogas Enterprise Solutions (together "Flogas Energy") welcome the opportunity to respond to the Regulatory Authorities' consultation on the SEM Imperfections Charges for October 2026 to September 2027. As an all-island supplier, Flogas recognises the importance of ensuring that Imperfections Charges are forecast, recovered and communicated in a transparent way, given their material impact on wholesale electricity costs and, ultimately, customer bills.

Flogas Energy, a DCC Energy plc Group business, was established in 1978 and is a leading supplier of Liquefied Petroleum Gas, Natural Gas and Electricity across the island of Ireland, servicing a diverse range of domestic, industrial and commercial customers. Our vision is to be Ireland's leading provider of total energy solutions, meeting customers' changing requirements and delivering to the highest possible standards. We have an established reputation within the energy industry and have been awarded the NSAI Quality System Certificate from the I.S. EN ISO 9001 Series. Our response is set out below on behalf of the Flogas Energy. If there are any queries in relation to our submission, we would be happy to discuss them in further detail.

TSO Forecasts and Assumptions for Tariff Year

Flogas Energy acknowledges the complexity of forecasting Imperfection Charges and recognises that the TSOs must account for a range of variables that are inherently uncertain. We note that the forecast Imperfections cost for 2026/2027 is €810.14 million and that several key assumptions underpinning this forecast relate to factors which are largely out of suppliers control, including fuel prices, carbon prices, renewable generation levels, transmission availability and generation outages. While do not dispute the need to incorporate these assumptions within the modelling process, we believe greater transparency should be provided to consumers and stakeholders on the sensitivity of the forecast costs and customer bill impacts.

i. Inflationary Cost Drivers

Flogas Energy accepts that wholesale fuel and carbon prices are important cost drivers and should continue to be reflected within the forecast methodology. However, as highlighted within the consultation, these developments may also increase Imperfection Charges where additional dispatch balancing actions are required to maintain system security. Similarly, generator and transmission outages can materially increase constraint and balancing costs and should remain an important consideration within the forecasting period. Overall, we consider these assumptions reasonable but believe additional transparency should be provided on the contribution of each driver to forecast cost increases.

ii. Provision for Interconnector Net Transfer Capacity Restriction Costs

As with the Article 13(7) provision, this new cost category reflects uncertainty regarding future compensation and system operation requirements. We recognise the need for the prudent forecasting however; provisions of this nature represent a growing proportion of Imperfections Charges and may reduce transparency around the underlying operational costs associated with balancing the electricity systems.

We therefore encourage the TSOs and Regulatory Authorities to continue reviewing the treatment of provision-based costs, to explore alternative mechanisms to recover these costs rather than take the easy option of including them within imperfections and to provide clear justification where material allowances are included within annual tariff forecasts.

Modelling and Reporting of Imperfections Costs and Drivers

Flogas Energy welcomes the inclusion of the Customer Impact Assessment and believes this should become a permanent feature of future consultations. However, the current presentation may not provide stakeholders with a complete picture of the underlaying cost trajectory facing suppliers and consumers which does pose a cause for concern. The consultation proposed a lower tariff rate, this is supported by a favourable K-Factor adjustments and higher forecast demand, despite underlying constraints costs increasing from €699.81 million to €810.14 million.

A possible improvement to transparency, we believe is in reporting which should more clearly distinguish between:

- Underlying Imperfections costs;
- Provision-based costs;
- K-Factor adjustments;
- Historic liability recoveries;
- Demand-related tariff impacts; and
- Customer bill impacts

This would provide stakeholders with a clearer understanding of the true drivers behind the tariff and avoid situations where underlying cost increases are masked by other adjustments. Flogas also believes greater emphasis should be placed on cumulative customer impacts. Imperfections Charges are increasingly being considered alongside a range of other market reforms, including CRM 2.0 proposals, network charges, system services costs and potential future Renewable Electricity Price Guarantee supplier levies.

While each proposal may be justified individually, the cumulative impact on suppliers and consumers is becoming increasingly significant and should be considered more holistically.

Additional Actions to Minimise Imperfections Charges

In the upcoming tariff year, we believe greater transparency and scrutiny should be applied to large provision-based cost items to ensure forecast costs remain proportionate and justified. Over the medium to long term, we believe focus should remain on:

- Delivery of the North-South Interconnector;
- Reduction of transmission constraints and network congestion;
- Greater utilisation of flexibility services and demand-side response;
- Enhanced market incentives which encourage efficient participant behaviour;
- Continued review of operational policies and system security requirements; and
- Reducing reliance on costly out-of-market dispatch actions.

Flogas Energy supports the continued integration of renewable generation and acknowledges the long-term benefits this can deliver for consumers through decarbonisation, energy security and reduced wholesale market costs. However, these benefits should not be offset by increasing balancing and constraint costs. As renewable penetration increases, infrastructure, operational processes and market arrangements must evolve to ensure overall system costs reduce over time rather than simply shift between cost categories.

Closing Position

Flogas Energy recognises the important role that Imperfections Charges play in maintaining system security and facilitating the transition to a lower-carbon electricity system. However, we remain concerned that a growing proportion of forecast costs relate to provisions, historic liabilities and compensation arrangements rather than recurring system operation activities.

We encourage the Regulatory Authorities and TSOs to provide greater transparency around the underlying drivers of Imperfections costs, improve reporting of customer impacts and consider the cumulative effect of emerging market reforms on suppliers and consumers. A more joined-up assessment of these costs would support affordability, maintain effective competition and improve stakeholder understanding of how regulatory costs are ultimately reflected in customer bills.

Yours sincerely,

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