

6<sup>th</sup> July 2012

Mr. Jerry MacEvilly  
Commission for Energy Regulation  
The Exchange  
Belgard Square North  
Tallaght  
Dublin 24

Dear Jerry,

**RE: 2012/13 Tariffs for Short Term Capacity and Transmission Exit Capacity Transfers**

Bord Gáis Energy (BG Energy) welcomes the latest review of short term capacity tariffs and transmission exit capacity transfers. BG Energy has a number of concerns, which it hopes the CER will consider before finalising a decision both on the applicable tariffs and the restriction of transmission capacity transfers.

Firstly, in the context of the significant restrictions on secondary capacity transfers, BG Energy does not believe that the proposed reductions in the revised tariffs are sufficient to meet the desired objective. The price differential between secondary capacity transfers and short-term capacity products are still significant and as such, users of secondary capacity transfers will see a significant increase in their costs of transportation, once the CER limits the transfer of secondary capacity. This in turn will directly impact the products offered to and prices paid by customers. BG Energy does not believe therefore that the proposals outlined in the CER's latest consultation represent value for customers or users of the system.

Secondly, the CER's proposals reduce the price of short-term capacity products in the summer months, while the winter tariffs remain unchanged. As such, the proposed changes do not represent a real alternative to users of secondary capacity transfers. That is to say, users of secondary capacity transfers, including gas fired generators in the SEM, tend to use the products during the winter months and given that the tariffs have remained unchanged, the proposals do not provide an economic alternative to secondary capacity transfers. The result of which may be to reduce the overall throughput in the gas system and increase gas transportation tariffs in the long-term.

Related to this and as highlighted in previous responses to the CER's consultation on short-term capacity products, BG Energy is also concerned about the impact of these proposed tariffs on the operation of the Single Electricity Market (SEM) and electricity prices.

Given the rising levels of intermittent generation on the electricity system, there is an increasing need for flexible generation units to invest in the SEM. Gas fired generators are the most economic alternative, both in terms of efficiency and for long-term carbon reduction in the SEM. However, the price of gas capacity is having an impact on the competitiveness of gas fired generation and as such the viability of gas fired peaking plants. Without such investment, the sustainability of the electricity system may be jeopardized in the long-term. Furthermore, the price of short-term capacity products will have a direct impact on the price paid for by electricity customers as gas fired plant are increasingly run as the marginal plant in the SEM and therefore set the marginal price for wholesale electricity.

With these points in mind, BG Energy requests that the CER conduct and publish a cost benefit analysis of the proposed changes, taking into account the long-term usage of the system and the impact of the proposals on the electricity market. We also strongly urge the CER not to commit to a date for the removal of secondary capacity transfers until such time as it has been demonstrated that the price and flexibility of short-term capacity products are sufficiently competitive, such that they are used and valued by users of the gas network.

Finally, with respect to the benchmarking of the short-term capacity products against other markets, can the CER provide any further detail on the systems and tariff regimes in the respective markets? It would be interesting to understand if the tariff regimes in the other markets have other or similar objectives to the Irish regime.

I hope you find the comments above useful in carrying out your review. Please do not hesitate in contacting me should you have any comments or queries on the issues raised.

Yours sincerely,

Dermot Lynch  
Commercial Regulation  
Bord Gáis Energy