



CER-12-058 – Consultation on October 2012 to September 2017 transmission revenue for Bord Gáis Networks

Endesa Ireland welcomes the opportunity to respond to the *Consultation on October 2012 to September 2017 Transmission Revenue for Bord Gáis Networks*.

Endesa Ireland notes that the price control amounts proposed by the CER would lead to significant increases in capacity and commodity tariffs. We would point out that generators of electricity cannot currently recover the cost of these tariffs from the market. We would highlight that these large increases may give rise to security of supply concerns as generators may not be willing to invest in long term capacity as a result.

Endesa Ireland believes that the SEM Committee must revisit the means for generators recover these costs. Endesa Ireland considers that under the terms of its licence as interpreted by the Supreme Court in *Viridian Power v CER*¹ that generators are obliged to recover the transport costs of gas contracted on a daily basis as they constitute Short Run Marginal Costs.

Endesa Ireland suggests that the amounts that the CER proposes to allow as part of this price control should be presented alongside amounts allowed in PC2 for easy comparison. Although the increase in tariffs under PC3 is to be substantial, the causes of this increase are not clearly highlighted in the paper; we consider that it should be.

Section 9 – Proposed Twinning of SWOS

On the question of reinforcement of onshore Scotland network, namely twinning the 50km Cluden to Brighthouse Bay 85barg pipeline, Endesa Ireland considers that a cost-benefit analysis is required to support CER's position that the costs of this work are not justified at this time. We also question whether there are less costly works, such as installation of an additional compressor, that may reduce the potential risk of this constraint materialising.

Endesa Ireland has no objection to the introduction of interruptible entry and exit products but does not agree with the CER that this type of product is most suitable for the gas-powered generation sector. It is true that these generators can fuel switch, but it must also be accepted

¹ *Viridian Power v Commission For Energy Regulation*, Supreme Court Record Number 285/11, 23/2/12.



that this is not without difficulties and that it will increase the price of electricity for end customers. This must be taken account of in the cost-benefit analysis.

Endesa Ireland welcomes the CER's statement that it will soon be contacting shippers to discuss nominations and re-nominations and that there will be a 'Gas and Electricity Interactions' meeting later this Summer. As discussed below, non-gas-powered generators are useful in the event of a capacity constraint at Moffat and may be preferable to fuel switching gas generators.

Endesa Ireland has serious reservations about the suggestion in the paper that alternatives to market-based responses to capacity constraint could be utilised, such as EirGrid identifying and entering commercial arrangements with one or two gas-fired plants to fuel switch when gas capacity is constrained or that the EWIC could provide a substitute. Endesa Ireland argues that all generators should be considered when such a situation occurs, and the benefits of having non-gas-fuelled generation on the system can be realised in this situation; the most efficient solution should be utilised. Endesa Ireland welcomes forthcoming discussion of these issues and believes that this issue should be fully consulted upon with industry.

Endesa Ireland agrees with the CER's assessment that limiting gas generators' flexibility to renominate at Moffat would pose difficulties for both the gas and electricity systems, particularly given the growing penetration of wind generation. Similarly, Endesa Ireland agrees with the CER that TSOs or shippers should not be required to hold gas in storage.

Section 11 – Cost of Capital

Regarding the WACC, Endesa Ireland agrees that the 'trigger mechanism' for adjustment of the WACC should there be dramatic change in global economic conditions has merit. However, Endesa Ireland believes that, where possible, the impact of any change on customers must be minimised and proposes that where this trigger mechanism is invoked that the CER examine whether any spending by BGN could be deferred in hope of rates decreasing at a later time.