

Access Tariffs and Financing the Gas Transmission System

Consultation Paper CER/13/122

Presentation Agenda

1. Background
2. Drivers for the Consultation
3. Proposals in the Consultation
4. Forecast Capacity Bookings 13/14
5. Potential Effect on Tariffs
6. Next Steps

Background

- There has been a significant drop off in primary capacity bookings; likely causes include:
 - secondary capacity availability,
 - reduction in short term capacity starting summer 2013,
 - wind displacing gas off merit order,
 - EWIC, and,
 - relative merit order of peat, coal, oil and gas.

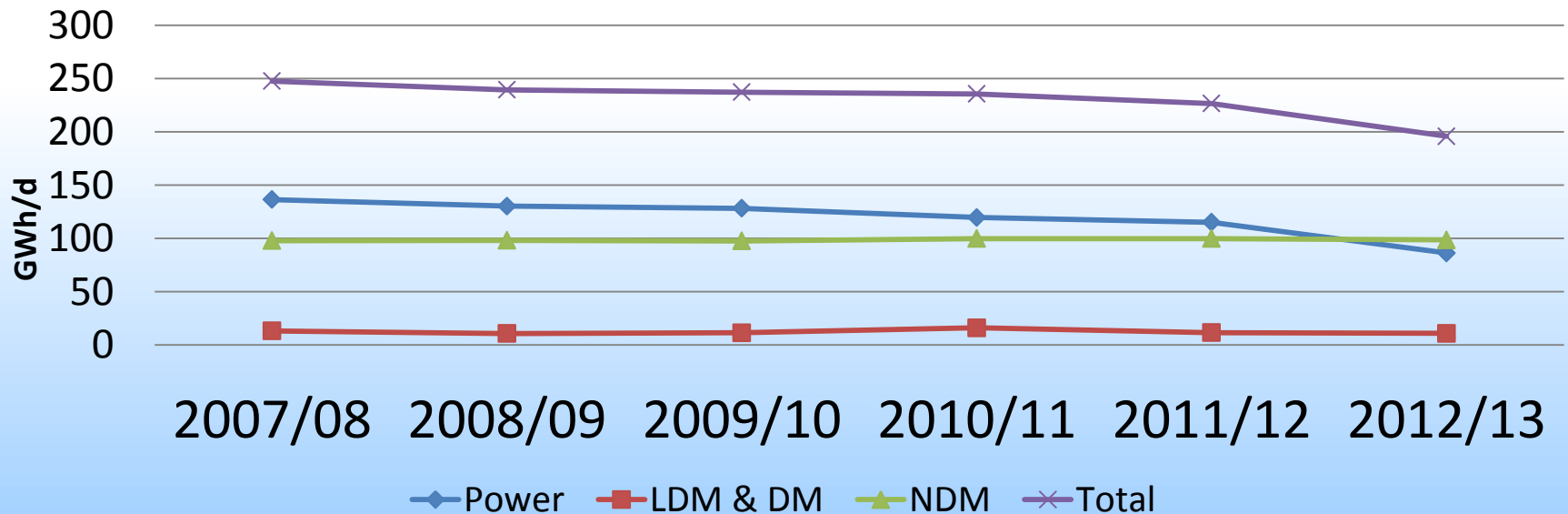
Background

CER Decision Background

- **CER/10/089** - *restriction* of secondary capacity transfers, with effect from 1st Oct 2012.
- **CER/12/033** deferred implementation of *restriction* to 1st Oct 2013.
- Following consultation, **CER/13/080** introduced a 10.2% network tariff increase from 1st April 2013. This was a mid-tariff period increase aiming to limit scale and number of potential future tariff changes.
- **CER/13/122** ‘the Consultation’, seeks to modify the underlying tariff structure to ameliorate further tariff increases.

Background – Decline in Bookings

Historic Annual Capacity Bookings & 2012/13 Dropoff



Despite 877MW of new gas fired generation added in 2010, power sector capacity bookings have continued to fall; 37% so far in 2012/13 compared to 2007/08

- gas commodity is displaced by coal, wind and imports
- capacity bookings are falling faster than commodity as annual bookings are replaced by exit capacity transfers and within-day capacity

Background – Decline in Bookings

- Despite the growth in (LDM & DM) I&C commodity, the I&C capacity bookings are down 18% in 2012/13 compared to 2007/08. This is considered to be largely due to secondary transfers being used instead of primary bookings.

Summary so far

- Capacity bookings have been in serious decline for a number of years. This is not likely to be a short term trend. Without remedial action higher tariffs will result.
- The Power and (LDM & DM) I&C sectors are booking less capacity and the burden of this is falling on the NDM sector who have no choice in booking levels.
- As noted, the volume of bookings in the Power Sector has fallen significantly - the burden of this falls on the NDM, and to a lesser extent, I&C sectors.
- CER seeks to ensure the required Gas Transmission System, which has been built for all gas customers, is paid for by those customers on a fair and equitable basis.

Proposals in the Consultation

The Consultation essentially proposes to reduce flexibility to increase primary capacity bookings by:

- a) Potential removal of secondary capacity transfers at the exit.
- b) Potential restriction on the latest time of purchases and transfers of capacity at the exit.

The Consultation also confirms the decision in CER/10/089 that secondary capacity transfers will be restricted to within the same customer category at the exit from 1st Oct 2013.

Proposals in the Consultation

Proposal 1: Potential Removal of Secondary Capacity Transfers at the Exit

- If secondary capacity transfers at the exit were removed this could help to lower unit tariff from what it would otherwise be.
- The Consultation Paper outlined a number of issues considered in relation to this proposal and explains the CER's initial views on why it may be appropriate to remove secondary capacity transfers at the exit.

Proposals in the Consultation

Proposal 2: Potential restriction on the latest time for purchases and transfers of capacity at the exit

- In this proposal, the CER is focussing on the power sector and is seeking to increase the level of bookings from that sector.
- The 2012 JGCS indicated power sector demand will consistently be over 50% of peak day demand out to 2021. The proportion of the system paid for by power generation should be reflective of the proportion of the system built out to meet its demands.

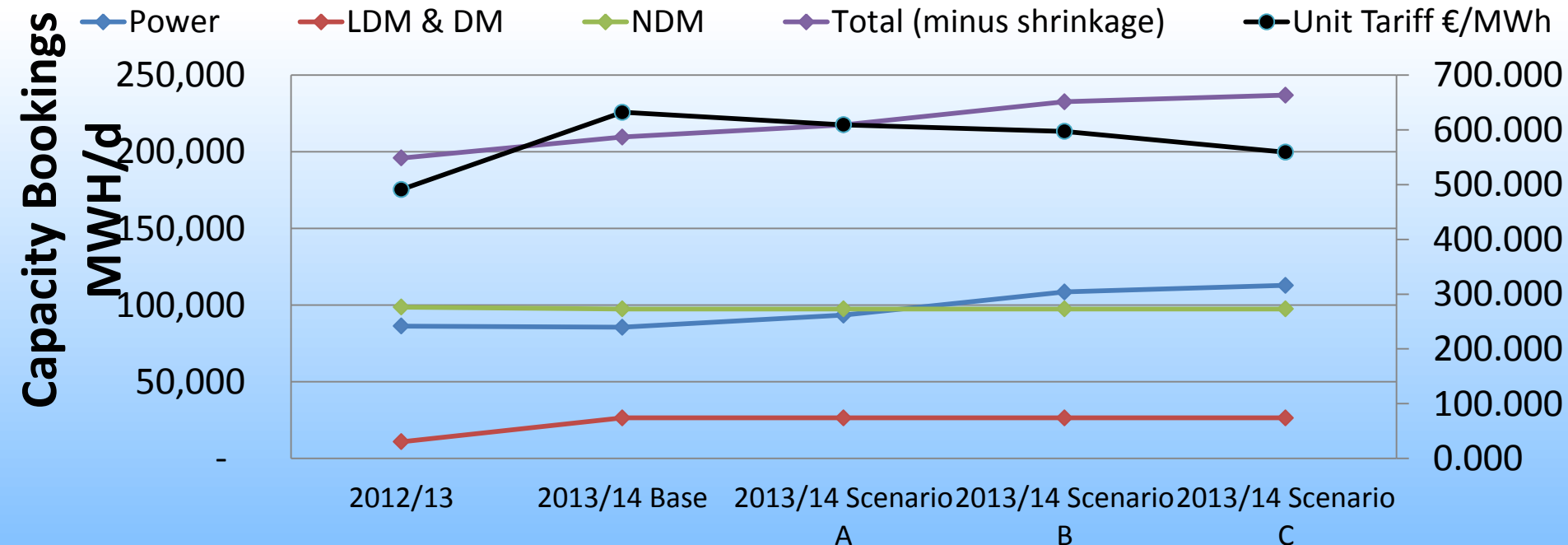
Alternative Options in the Consultation

The CER is not currently minded to implement, but welcomes comment, on the following alternatives

- Mandatory Bookings for all
- Removal of Mandatory Bookings for NDM
- Long Term Booking Incentives

Indicative Primary Bookings 13/14

13/14 Bookings & Indicative Effect on Tariff



Base = Restrict Secondary

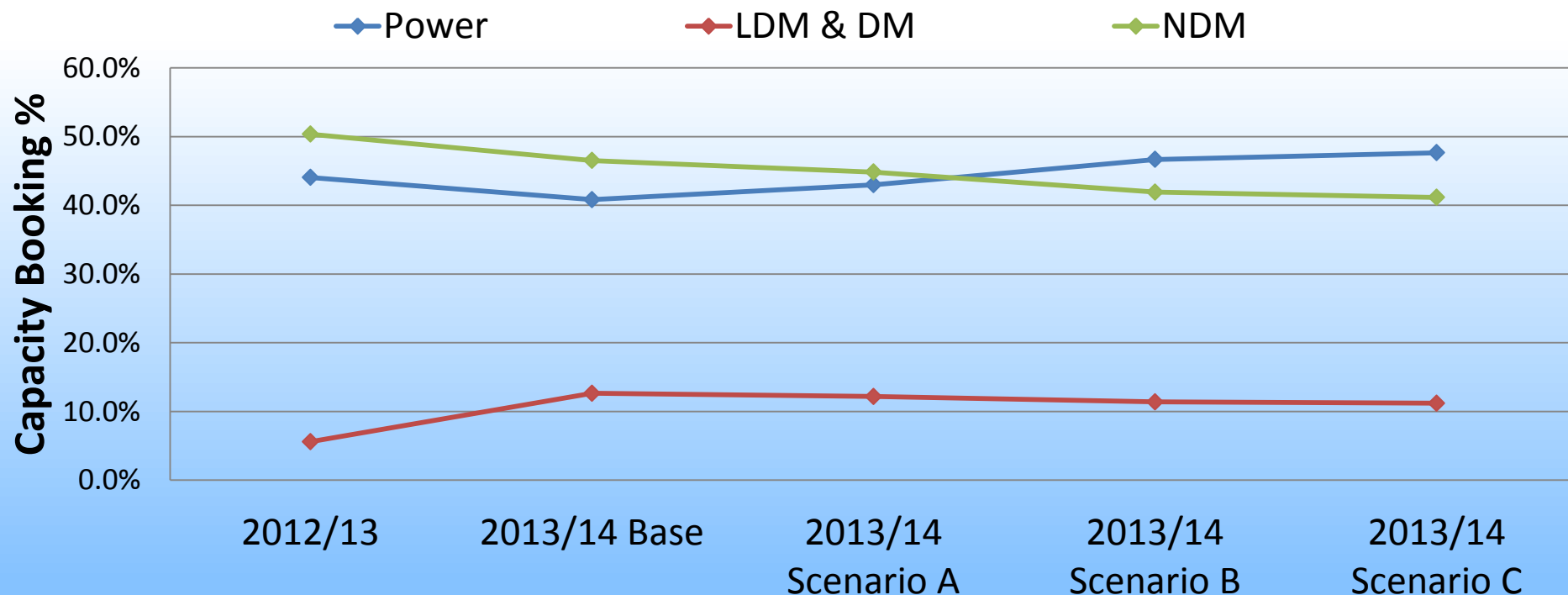
Scenario A = Secondary Transfers Removed

Scenario B = Secondary Restricted and Within Day Removed

Scenario C = Secondary Removed and Within Day Removed

Indicative Primary Bookings 13/14

Capacity Bookings % Share



Base = Restrict Secondary

Scenario A = Secondary Transfers Removed

Scenario B = Secondary Restricted and Within Day Removed

Scenario C = Secondary Removed and Within Day Removed

Next Steps

- The CER wishes to implement a decision as soon as practically possible.
- The CER aims to publish a decision before the publication of the 13/14 Gas Transmission Tariffs.
- If changes result from the consultation process; any required modifications to the Code of Operations would be implemented as required.

Next Steps

- CER requests submissions to be made to jmcsherry@cer.ie not later than 5:00pm, Monday 15th July 2013.